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# JANCIAI TIMES

World Business Newspaper http://www.FT.com

THURSDAY JANUARY 7 1999

Already a happy new year for stocks



Global agriculture Farmers say it's never been so bad Page 11



By Philip Coggan in London and John Labate in New York

World markets stepped up the

pace of their new year rally yes-terday with Wall Street heading

into record territory in early

Takeover talk in the automo-

tive and telecommunications sec-

tors provided the immediate spur

for the gains but there were signs that institutional investors were

pushing money into blue-chip

stocks, as they often do at the

Just before 2pm in New York,

the Dow Jones Industrial Aver

age crossed the 9,500 level, up 198

points on the day. It was already

in record territory earlier in the

day when it passed 9,400. Enthu-

slasm for semiconductor and

internet shares extended the Nas-

daq composite's record-breaking

run, with the technology-domi-

nated index adding 2.6 per cent

by early afternoon at 2,309,59.

start of the calendar year.

trading and European bourses

surging ahead

**Life on Mars** Invasion of robots looking for water Page 19



TRADITIONAL JANUARY LIFT FOR EQUITIES BOOSTED BY TAKEOVER TALK, LOW BOND YIELDS AND PROSPECT OF INTEREST RATE CUTS

Trading in euros Whiz-kids do their bit

World economy Will the US consumer boom burst? Samuel Brittan, Page 10

WORLD NEWS

#### Former army chief joins race for Israeli premiership

'simnon Lipkin-Shahak, Israel's former army chief, launched his campaign for the premiership with an attack on prime minister Benjamin Netanyahu and an appeal for Israeli unity. Page 14; Profile, Page 8

Debate rages over Clinton trial US senators were locked in debate over how to organise President Bill Clinton's impeachment trial, which starts today. Right wing Republicans sought to block plans for an accelerated vote. Page 14; Republican nerves grow. Page 5

German parties split on citizenship Germany's opposition parties' attack on government plans to ease citizenship laws stalled as their own ranks split over the issue. Europe, Page 2

Bussels crisis looms Suropean Parliament members Fare demanding the resignation of two European commissioners as the crisis over the Commission deepens. Europe, Page 2

a r

in Belan

US heads for healthy surplus The Clinton administration yesterday forecast a higher-thanprojected US federal budget surplus of about \$76bn this fiscal year. America, Page 4

UN rejects stur on impartiality Top United Nations officials defended UN integrity and impartiality after reports that its weapons inspectors in Iraq had been used by US intelligence as cover for spying. International, Page

Sierra Leone rebels reach capital Rebels reached central Freetown, Sierra Leone's capital, capturing the presidential State House. ernational, Page 4

leak economic outlook for China Chinese finance minister Xiang Huaicheng forecast bleak economic prospects for the country and predicted an increased deficit would be needed to spur growth. Asia, Page 6

LIK notice told to leave Aden Two British detectives probing a rescue operation in Yemen in which four western hostages were killed left Aden at the request of Yemeni authorities.

Obuchi orders coalition talks Japan's prime minister, Keizo Obuchi, left for Europe after instructing key members of the ruling Liberal Democratic party to finalise coalition talks with opposition Liberals. Asia, Page 6

Canadian aid reaches Russians Canadian aircraft flew aid to Mukchi Autonomous District in Riussia's far north-east but ice halted a sea cargo of badly needed oil. Russia's economic crisis has created severe shortages in some remote regions.

Turkey still in political crisis Veteran Turkish politician Bülent Ecevit re-emerged as the country's probable next prime minister after Yalim Erez abandoned his attempt to form a new government, Europe, Page 3

Banks to fund Holocaust list Swiss banks are putting \$4m towards a computerised list of Holocaust victims' names in a bid to match dormant wealth with its rightful owners.

**BUSINESS NEWS** 

#### claims assets of more than \$12bn

Kirch Group, the troubled investors that its assets are worth more than DM20bn (\$12bn) and it has lower debt

Gucci, the Italian fashion group, saw its shares jump 19 per cent to €55.4 when LVMH, the French luxury goods conglomerate. announced it had acquired more than 5 per cent of the company. Page 13; Lex, Page 12

Storebrand, Norway's leading insurer, launched a NKr1.6bn (\$224m) takeover bid for Finansbanken, the country's second largest private bank, in the latest consolidation of the Nordic financial sector. International companies, Page 14

Baan Company, the Dutch maker of business software, saw its shares rise 9.5 per cent as it announced it had received a \$75m cash injection from a US investor group. International

Italian mobile phone users got a nasty shock when the cost of calling cellular telephones from fixed lines soared by as much as 153 per cent. Europe, Page 3

Airbus industrie has extended its reach into rival Boeing's home territory with a deal to sell 30 single-aisle airliners, valued at \$1.3bn, to Boultioun Aviation Ser vices, a German-owned leasing company based in Washington state. World trade, Page 4

China threw into doubt the future of 44 important industrial parks across the country, including a \$20bn Singaporean flagship proj ect trumpeted by the city-state's leaders as the ootimum way for foreign manufacturers to enter the unpredictable Chinese mar-

moved further into crisis despite the government's injection of thousands of billions of yen in public works projects. Construction orders in public and private sectors fell 21.3 per cent in November in the 11th consecutive month of year-on-year declines. Asia-Pacific, Page 6

Bank confirmed they were seeking Tier 2 capital help from the authorities, but Thai Military Bank denied it had decided to apply for Tier 1 help. Asia-Pacific companies, Page 16

local companies that have flooded bazaars and upmarket shops with counterfeit versions bats. World trade, Page 4

The latest trends and data from more than 50 national markets at a glance

### Media group Kirch

German media group seeking a cash injection, has told potential than has been estimated.

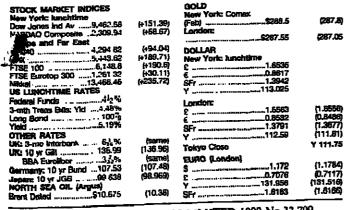
Page 13

US investment banks topped the European takeover league tables last year, according to preliminary figures. International

companies, Page 14

Japan's construction sector has

WORLD MARKETS



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companies, Page 14

Thai Military Bank and Bangkok

Reebok India is cracking down on of its sports clothing and cricket

**World Equity Markets** 

### By Jim Ketly and Robert Rice in London

fees and 3,000 lawyers.

New York.

Spain's second biggest law firm. said: "We want to give a signal to the key law firms in the UK that

It is understood PwC will be looking in the middle-tier of City law firms and may also consider an additional merger with a strong provincial legal network. PwC's legal practice in London would have 400-500 lawyers

seek an associate law firm in New York. "We want to become one of the

top five legal firms in the world Andersen in trying to attract a within the next five years," he City of London law firm.

PwC's move mirrors that of fel- Observer, Page 11 low Big Five accountant Arthur Comment, Page 18

Andersen, which already has a legal network in 31 countries around the world. It acquired

However, in recent months efforts to rival the leading US and UK international law firms have suffered a setback following the collapse of merger talks with Wilde Sapte in London and the closure of its Hong Kong law

The collapse of the merger talks was a blow to its ambitions and raised doubts that any Big Five accountancy firm could build a comprehensive legal network to rival the big US and UKbased international law firms. There are big disparities in

earnings between partners in accountancy firms and lawvers Business lawyers working in Mr Nicolay said he hoped PwC's associated law firm in London are understood to earn an average £170,000 - compared with £850,000 at Slaughter and Regulatory constraints in the May, the UK's most profitable US meant PwC would probably law firm. Middle-tier earnings are lower and weaker in recession.

Yesterday, lawyers said PwC would face similar problems to

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Capital Markets 22 Comment & Analysis: 10,11 World Stock Markets: 28-34

Rally in world markets gathers pace ful launch of the euro has also earnings growth. prompted a wave of onthusiasm for Europe's prospects.

> the best month for stock market performance, with the UK market rising by an average 2.5 per cent on the month over the 1919-96 period, according to the Schwartz Stock Market Handbook. One factor behind January's historical strength is a seasonal

inflow of money into investment institutions. This seems to have been heightened this year by the decision of US equity mutual fund managers to reduce the cash levels which they built up when markets were falling in the third largest points rise although respectively. While the recent autumn and to invest the prowave of takeovers means that ceeds in the stock market. The few investors want to be out of fund managers' cash level the equity market, for fear of reached a two-year high of 6.3 per missing the next big deal, the cent in September, compared early strength of shares in 1999 with the average for the two-year also owes much to the lack of period of 4-1.5 per cent.

Some analysts think the rise in Bond yields are low and there share prices has gone too far, are expectations that interest with investors paying insufficient rates will be cut further in attention to the prospect of index gained 190.6 to 6,148.8, its moved up 5.7 and 6.4 per cent Europe and the US. The success- slower economic and corporate

Edwards, global strategist at Dresdner Kleinwort Benson, said: "A lot of people think that 10,000 January has traditionally been on the Dow is sustainable. With the trailing price-earnings ratio on the US market around 38, we are approaching Japanese-style bubble valuations. At these lev-els, a deepening profits recession will eventually hurt the market."

Arthur Hogan, chief market analyst at Jeffries & Co in Boston, said: "This is a completely liquidity-driven marketplace that's diverged from earnings fundamentals.

"January is the time when everyone's sitting on a pile of cash and it will take a huge earnings warning from the likes of General Electric or Microsoft to stop people in their tracks."

Euro as trade tool, Page 2 Samuel Brittan, Page 10 Editorial Comment, Page 11 Observer, Page 11; Lex, Page 12 Business and the euro, Page 21 Bonds, Page 22; London stocks, Page 30: World stocks. Page 34

### Volvo appoints US bank to explore car group sale

well down the scale in percentage

terms. In Paris. the CAC 40

gained 2.2 per cent to be within

100 points of its all-time high

while the DAX in Frankfurt

Earlier in the day, the Hang Seng index in Hong Kong had

gained 3.5 per cent while the

gained 3.4 per cent.

In Europe, London's FTSE 100 Singapore and Bangkok markets

and William Lewis in New York

Volvo, the Swedish automotive US investment bank to explore a possible sale or merger of its car division, its largest business. The decision represents the

first confirmed sign that Volvo, one of Europe's premium brands. is reconsidering the strategic ownership of its car manufacturing operations. Ford of the US, Italy's Fiat and

industry analysts at SKr40bn-SKr45bn (\$5bn-\$5.6bn). Volvo would represent a multiple of six times the car division's joint venture for Volvo Cars. operating cash flow. It would swell Volvo's cash reserves to

his desire to expand Volvo's shares rose 6.2 per cent to truck, bus and construction SKr212; the Stockholm market Lex, Page 12

margin businesses. However, people close to the

company warned that no assurgroup, has appointed a leading ances could be given that a deal involving Volvo Cars would be Under the terms governing most only a small fee if it finds no

Nevertheless. Volvo is said to Volkswagen of Germany have been identified as possible bidreached, one official said.

ders for the business - valued by bank, which has not been named, Mr Johansson has made clear outright disposal, partial sale or Volvo declined to comment.

Market speculation surroundalmost SKr60bn - enabling the ing Volvo had centred on a announce underlying operating group to contemplate a large merger involving the whole profits of SKr9bn for 1997, up acquisition in other areas. group and has fuelled a near 25 sharply from SKr3.7bn in the pre-Leif Johansson, Volvo chief per cent rise in Volvo's shares in executive, has made no secret of the past month. On Tuesday the SKr156bn to SKr207bn.

equipment divisions, all higher- was closed yesterday, a public holiday.

alternatives.

Some analysts believe Volvo might pursue a deal similar to the joint venture at Swedish rival Saab Automobile, in which Invesannounced. The bank has tor - the main investment received a "sell-side" mandate. vehicle of Sweden's Wallenberg empire - sold a 50 per cent stake such mandates, the bank receives and surrendered management control to General Motors of the

The bank is also believed to be be "absolutely serious" about scrutinising a possible manufacselling or merging its automotive turing partnership, modelled on division if the right terms can be Volvo's existing Dutch venture with Mitsubishi Motors of Japan, The Wall Street investment which produces mid-size cars.

is understood to have drawn up a that he is dissatisfied with the grown's car division, which contributed an estimated SKr3.8bn to Volvo's profits in 1997. He is expected next month to

vious year, on sales ahead from



Volvo chief executive Leif Johansson has made no secret of hoping to expand Volvo's truck, bus and construction equipment divisions

### PwC plans global law firm network

PwC, the giant professional J&A Garrigues, Spain's largest services firm, aims to build the law firm, in 1996. fifth largest law firm in the world in the next five years with \$1bn

It is about to open talks with potential partners in London and Gérard Nicolay, giobal leader of PwC's legal network, announcing details of a deal to create

we are ready to start merger dis-

within two years.

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UK 18,

Asia Pacific 16,

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### in crisis as MEPs call for sackings

Two commissioners were last night facing demands from bers to resign, as the political crisis surrounding president Jacques Santer's sioners to resign

The European Liberal Democrats, parliament's third-largest group with 42 members, were set to present at parliament's session next week a resolution calling for Edith Cresson, a for-

European stand down.

The demands will be presented alongside a censure month, which, if successful, other option," he added. would force all 20 commis-

But Mr Santer was defiant yesterday. He insisted that if Commission - after voting parliament failed to muster the necessary two-thirds majority for the censure, his Commission would press on - even if it faced a sizeable protest vote.

mission vice-president, to the EU treaty] in their programmes. entirety," he said. "That means if the vote of censure recently been further error. fails, the Commission will angered by the suspension of European Parliament mem- motion already tabled last continue. We don't have any a Commission "whistle- also anxious to avoid allow-

Parliament presented its censure motion - its only official sanction against the against granting discharge to, or signing off, the EU's 1996 accounts. The vote reflected parlia-

mentary dissatisfaction over mismanagement by the Commission, and a series of leaks some other political groups the resolution for alleged Echo, the Commission's

and Manuel Marin, a Com-institutional provisions [of alleging corruption in some believe activating the mission planaridant to the RII treatyl in their programmes. "nuclear weapon" of a cenlleging corruption in some believe activating the poor administration in the humanitation affice; for party the centre-right group rogrammes.

"nuclear weapon" of a centre-right group which training prowhich the was responsible which is partiament's second, and concerns over ond light with 202 mem-

> blower", Paul van Buitenen, ing the Commission to who leaked information to escape sanction. MEPs, few expect the motion which requires support from a majority of all 626 MEPs and two-thirds of votes cast - to succeed.

> The socialist group, the biggest in parliament with their personal responsibil-214 MEPs, is pledged to support the Commission, and

But several groups are

The Liberals last night agreed to present a resolution calling on the two commissioners whose programmes have come in for most criticism to "accept

Mrs Cresson is targeted by

on awarding contracts.

She has vigorously and repeatedly denied any per-Commission says any prob relate entirely to an external contractor. Mr Marin is mentioned for

"lack of responsibility" he has shown related to misuse

responsible, and alleged the Med programme of assis-"favouritism" in decisions tance to Mediterranean questions to the Commission

sonal wrongdoing, and the doing, and the Commissi lems found in Leonardo or Med were at the level of lesser officials or outside contractors.

of humanitarian aid funds in olution.

countries. Mr Marin has similarly next week. denied any personal wrong-

The Greens, with 27 memwould back the Liberals' res-

The European People's See editorial comment

and decide on its position

Such a resolution, requiring only a simple majority to binding force but would put sure to act.

Mr Santer also said ye bers, said last night they day he had complete faith in

#### Violence renews tensions in Basque region

By David White in Madrid

A resurgence of political street violence in Spain's Basque country has renewed tensions in the region in spite of a ceasefire by the armed separatist organisation Eta, in force since

Several dozen hooded protesters hurled petrol bombs and fireworks at a paramilitary Civil Guard barracks in Getxo, a town outside the main Basque city of Bilbao, on Tuesday night.

The action followed an early morning arson attack in Bilbao, which gutted a café belonging to a member of Spain's ruling centre-right Popular party. Local PP politicians were the prime targets of Eta in the last months of its 30-year terrorist campaign, with six town councillors murdered in 1997 and 1998.

Attacks and threats have built up in recent weeks, including the New Year's day burning of a court building in Tolosa, south of San Sebastián

The escalation coincides with increasing demands for government concessions towards more than 500 iailed members of Eta. currently scattered in prisons around Spain Basque nationalist parties and trade unions, which have criticised the scope of measures so far by the Madrid authorities in response to the Eta efire, are backing a mass demonstration planned for Saturday, calling for a more comprehensive programme to relocate prisoners nearer

their family homes. The protest is expected to be attended by some members of the new Basoue regional government, which is due to take office today. Formed by the mainstream Basque Nationalist party (PNV) and a smaller splinter party, the new adminstration relies on support in the regional parliament from Euskal Herritarrok, the new grouping based on Eta's political arm, Herri

Batasuna (HB). An opinion poll in the Spanish daily El Mundo showed a majority of favouring negotiations with Eta or HB to resolve the Basque

conflict. But more than 71 per cent rejected granting pardons to convicted Eta members. even if the ceasefire became permanent. Most were also opposed to pardoning 22 former HB leaders now in iail after receiving seven-year sentences in 1997 for aiding terror-

FINANCIAL TIMES
Published by The Financial Times (Europe)
Gaibli, Nibelungenplatz 3, 60318 Frankfurt am Mam, Germany, Telephone 4+49
69 156 850. Fan ++40 69 596 4481. Represented in Frankfart by Colin A. Remand
as Geschäfteführer and in London by
David C.M. Bell, Chairman, and Alan C.
Miller, Departy Chairman. The shareholder
of the Financial Times (Europe) GmbH is
Pearson Overscent Holdings Limsted, 3 Bortlington Gardens, London, WIX 11.E.
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GERMANY: Responsible for Advertising content: Coim A. Kensard. Praster: Historyes International Verlagsgasellschaft mbH. Admiral-Rosen-dahl: Strasse 3a, 63243 Nett Isenburg ISSN 0174-7363. Responsible Editor: Richard Lambert, clo The Financial Times Limited. Number One Southwark Bridge, London

FRANCE: FRANCE:
Publishing Director: P. Marasigha, 42 RieLa Boeire, 75016 PARIS. Telephone (01)
5376-8254, Fax (01) 5376-8253, Printer:
S.A. Nord Eclair, 1521 Rie de Caire.
F-9100 Roularix Cedes I. Editor: Richard
Lambert, ISSN 1148-2753, Communiou
Paritaire No 67608D.

Responsible Publisher: Bradley P Johason Telephone +46 8 791 2345, Printer: AB

Telephone +46 & 791 2345. Praise: AB Rvaishtidinigen Expressen, PO Box 607, \$-550 Ob. Jönköpsig.

C. The Finantial Times Limited 1999 Editor: Richard Lambert, elo The Financial Times Limited, Number One Southwark Bridge, London SEI 9HL.

### Commissioners start to feel the heat

Dossier on alleged fraud and mismanagement has added to trepidation surrounding censure motion in European Parliament next week, writes Neil Buckley

have landed Jacques Santer

Dutch-born assistant internal auditor at the Commission is at his comfortable, detached home in an affluent Flemish suburh of Brussels this week, some miles from the centre of the political storm he has provoked. If he were not busy worrying about the future of his

job, he might be amused by the international media attention he has attracted. European television crews are oneueing at his door. appearances before the media have shown him to be articulate and intelligent, has been suspended on halfproceedings. His misdemeanour: passing a dossier detailing alleged fraud and mismanagement at the

The Commission maintains that the content of the dossiers was not new, con-

But Mr van Buitenen's letin the biggest crisis of his ter did not just outline parfour years as president of ticular cases of alleged fraud the European Union's execu- and mismanagement in Commission programmes. It Paul van Buitenen, 41, a also attacked the Commission's whole culture, citing the "incompetence and unwillingness of the administration to deal efficiently with fraud and irregulari-

> Partly as a result of Mr van Buitenen's actions, the Commission is viewing a censure motion in the European Parliament next week with genuine trepidation.

If it loses, all 20 commissioners who head the executive face the sack - plunging Mr van Buitenen, whose the EU into chaos and threatening the timetable for vital reforms needed to prepare the Union for eastern enlargement. This is pay pending disciplinary unlikely, as a two-thirds majority would be needed. But enough MEPs could now vote against the Commission to cause it significant dam-Commission to the European

How did it come to this? Just as few originally believed President Bill Clinton's affair with Monica taining only cases already Lewinsky would lead to his

mid-ranking official at under investigation. His impeachment, so few, as the committee, assessing the mid-ranking official at under investigation. His impeachment, so few, as the committee, assessing the the European Commis- offence, rather, was to break clash between EU commis- 1996 budget, expressed constion may – with help staff rules by releasing confisioners and parliament cern early last year about from the Commission itself – dential documents. culminate anything close to a vote of censure.

The confrontation, however, is not just about fraud. of the EU's three policymaking bodies.

The Commission not only acts as the EU's civil service, running policy day-to-day, but has the sole right to propose legislation. The 626member parliament, the EU's only directly-elected ticularly the tendency to institution, sees itself as the democratic check and balance on those powers.

Until recently, that was just a delusion. But the 1991 Maastricht Treaty and 1997 Amsterdam Treaty have given to parliament a more important role in amending and approving proposed legislation in conjunction with from the 15 member states. Increasingly confident, parliament has begun to flex those muscles it has.

One of parliament's most cherished powers is the right to "grant discharge" to the EU's €80bn (\$93bn) a year budget - or sign off the accounts. Its budget control

It deferred discharge of the budget in March, citing an "unacceptably high number of cases where execution of It represents an important the budget has been inapprotrial of strength between two priate", and gave the Commission until December to put its house in order.

Foreign policy programmes were poorly imple mented it said. Efforts to tackle fraud lacked "democratic accountability". Commission staffing policy - parcontract out important projects to third parties eded overhauling.

A spate of leaks about alleged fraud in programmes such as Echo, the humanitarian aid office, and Med, an assistance programme for Mediterranean countries, damaged relations further. So did the latest annual the Council of Ministers report by the Court of Auditors - the EU's spending watchdog - which estimated that errors affected 5 per cent of all EU budget pay-

may have helped tip the bal-The Commission insists it met all parliament's demands in full. But MEPs, dissatisfied with some of its responses,

But more damage was probably done by a Commission statement the night.

parliament's Green group -

a party to which he belongs

- a week before the vote,

to grant discharge.

that, if they refused to sign and believing they had been deprived of full information off the 1996 accounts, they on alleged corruption, began should take the logical next threatening in November not step - a confidence vote. Angered by what many

Even then, it seemed saw as clumsy and unwarunlikely discharge would be ranted interference, MEPs voted 270-225 against dis-charge on December 17 and withheld. Mr van Buitenen's dossier, sent to the leader of took up the challenge of a censure vote.

Mr van Buitenen's suspension appears to have been a further tactical error by the EU executive, inflaming pardays before the vote next

packed press conference yes terday that if his Commis-

sion survived the censure motion, it would press on, whatever the voting details. As he also observed, the conference was taking place precisely one year before the expiry of his mandate as president on January 6 2000. He and his staff will have to work hard over the next that long. As for any hopes Mr Santer may have nursed liamentary tempers just of being reappointed for a second term, those now

SINGLE CURRENCY CENTRAL BANK WELCOMES CHALLENGER TO DOLLAR

### Cuba sees euro as trade tool

Cuba is cheering the arrival of the euro, happy to see a challenger to what it sees as the hegemony of the US dollar and a new tool to ameliorate the effects of the US trade embargo.

Europe is currently the biggest single source of visitors, trade and credits to the communist-ruled Caribbean island and the arrival of the new single currency is being welcomed accordingly. Francisco Soberón.

president of Cuba's central bank, said this week that using the euro would help to and payments with Europe, as well as reducing exchange

risks and even interest rate costs.By prohibiting Cuba from using the US dollar in its international trade, the US embargo forces Cuban companies to move in and out of third currencies with resulting additional costs complications.

and According to Cuban officials, this restriction resulted in currency exchange losses for Cuba of \$260m in 1998. Mr Sobero'n recommended that Cuban state companies trading with Europe start employing the euro from July 1 1999 onwards.

A US official dismissed the potential benefits, however. The euro is not going to fix simplify trade operations Cuba's fundamental economic problems." he said. But from the political

Euro hourly exchange rates

point of view, Cuban leaders Cuban population enjoyed clearly relish the idea that access to US dollars in 1998, the US dollar, the symbol of either through cash globalising US capitalism, may now face a challenge from the euro to its position of world supremacy. "The dollar and the euro are eyeing each other warlly. A promising adversary to the business. Mr Castro has privileged US currency has acknowledged the decision emerged," Fidel Castro, to legalise the use of the Cuba's president, said last dollar inside Cuba was a week in a speech celebrating painful one. the 40th anniversary of the

gaining strength as the currency of choice following the government's decision five years ago to permit the use of dollars by Cubans.

remittances sent from abroad, incentive payments by foreign and Cuban companies or through the "trickle down" effects of hard currency tourism and

Inside Cuba, however, the divides Cuban society
US "greenback" has been between those who because the same because the The island's dollars and can therefore enjoy a higher standard of living by buying in hetter-stocked dollar stores. and those who struggle to Just over 56 per cent of the live on Cuban peso salaries.

### Citizenship plans split German opposition

An assault by Germany's opposition parties on government plans to liberalise the country's citizenship laws stalled yesterday, as their own ranks split over the

Leaders of the conservative Christian Social Union, meeting yesterday in the Bavarian town of Wildbad Kreuth, sharpened their attack on the government's plans, which, for the first time, would allow foreign residents to claim dual citizenskíp.

But as the CSU fulminated against the proposed law, a splinter group of young leaders from the CSU's sister party, the Christian Democratic Union, warned that plans for a petition to oppose dual citizenship for foreigners simplified a sensitive issue and threatened to dam-

age support for the party. At a press conference, four younger CDU legislators said they would not support the petition unless there was also a clear commitment to the goal of integrating foreigners living in Germany. could be exploited by farright parties.

Their statements reflect widespread concern among the opposition parties and other groups in society, such as churches, over the treat-ment of the 7.3m foreigners living in Germany.

Those concerns apparently were not shared by the CSU on the citizenship issue as broadside against Chancellor Gerhard Schröder's \*redgreen" government of Social Democrats and Greens Günther Beckstein, Bavarian interior minister, said

the government's proposals were "an attack on internal security". Erwin Huber, head of the state chancellery office, claimed they would lead to the forced "Germanisation" of foreigners. in a position paper leaked

to the press ahead of the Wildbad Kreuth conference, the CSU claimed 4.2m foreigners living in Germany would be eligible for dual citizenship. It alleged that the granting of citizenship would prompt a wave of mass immigration as dependants joined their newly "Germanified" relatives. The would be higher unemployment, urban ghettos and

hit back. Otto Schily, interior minister, accused the CSU and CDU of a "panic reaction" brought on from the loss of power after 16 years in government. He accused Edmund Stoiber, Bavarian state premier, of leadership, which has seized suffering "a partial loss of on the citizenship issue as reality" and said the CSU an early chance to fire a actions risked inciting tensions within society. Mr Schily also sought to

sions within the opposition. ranks. He said the government would happily support a constitutional amendment to allow a referendum on the issue. Mr Stoiber, who is bidding to be the main opposition figurehead, backs referendums that are already used in Bavaria. Wolfgang Schäuble, CDU chairman, vehemently opposes referen-dums, which he believes encourage populism and undermine the duties of elected politicians to lead.

Mr Schily said the government would next week reveal details of its planned reform of Germany's citizenship laws, which are based on blood lineage, to allow result, the CSU claimed, foreigners to hold a German passport alongside one from their country of ethnic ori-

### **Bonn sets financial** consolidation course

By Rainh Aticins in Bonn

Germany's government vesterday committed itself to a priate combination" of fall from 2.5 per cent last financial consolidation demand-side as well as supcourse that would cut the public sector deficit to 1 per cent of national income in 2002 and reduce debt to below 60 per cent of gross domestic product in the same year.

The demanding targets reinforced pledges by Gerand Oskar Lafontaine. finance minister, that the set to remain high. Social Democrat-led government would adhere to growth" pact, which sets fiscal rules for euro currency members.

However, the programme

nation at European and international levels. Analysts also warned the government could struggle to meet its targets. Cuts in interest rates have not been as pronounced in Germany hard Schröder, chancellor, as in other euro-sone coun-

ment would seek an "appro-

ply-side policies, in addition

to macro-economic co-ordi-

tries and unemployment is The projections assume economic growth this year of Europe's "stability and 2 per cent - in line with most forecasting organisations but clearly higher than

the L4 per cent forecast this

unveiled by the finance min- German institute for eco-

ister stressed the govern- nomic research. The public

slower rate of decrease than envisaged by the government of former chancellor Helmut Kohl. German debt, inflated the cost of unification ar

sector deficit is expected to

year to 2 per cent this year

and then I per cent in 2002.

of GDP would drop from 48.5

per cent last year to 46.5 per

cent in 2000 - a slightly

State spending as a share

having failed the target of 60 per cent set in the Maastricht treaty, is expected to drop from 61 per cent in 1999. to 59.5 per cent in 2002. Mr Kohl had hoped to meet the 60 per cent threshweek by the Berlin-based old in 2001.

### Car price disparities highlighted

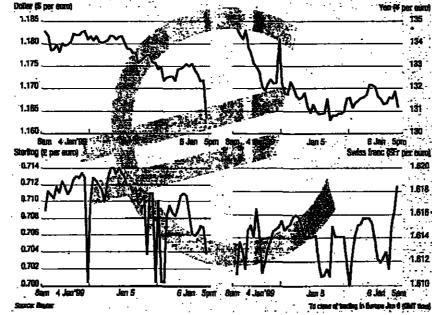
New car dealers this week were busy slapping euro price stickers on windscreens across the 11 countries of the euro-zone. But they merely emphasised continuing wide price disparlties between individual European Union states. Prices of many cars from

the volume producers are shown still to vary by up to 25 per cent in the EU and by up to 50 per cent in the UK, which is outside the eurozone and the EU's most expensive new car market. With exchange rates no longer a factor in the eurozone, manufacturers claim the gaps can be pinned down to two main reasons.

One is greatly differing specifications for seemingly similar cars. A 1.6 litre Opel Astra bought in Portugal is a much more simply-equipped machine than its CD-playing. air-conditioned yet identically named counterpart in Germany, says David Hopkins at General Motors' Ger-

man cars subsidiary. The other is the wide spread of taxation rates on new car purchases - up to 213 per cent in Denmark; as low as 15 per cent in Luxem-

bourg. Despite these factors, automotive industry analysts pre-tax differentials will also and some car makers say euro pricing will lead to consumer pressures that will substantially narrow the states. price gaps by making them



weeks, then certainly within 12 months.

Currently, most manufacturers effectively subsidise the pre-tax prices they prices unprofitably far. charge in high-tax countries by charging more in lower tax states. Narrowing the have the effect of making much clearer the big tax regime differences between

According to a market

transparent. . Such a process study by Lehman Brothers, should take place at least at some car makers may choose the pre-tax level if not in to sacrifice sales in high-tax markets in seeking to ensure differentials does not mean

Manfred Lohr, in charge of euro affairs at Volkswagen, expects VW's own prices to band in about a year, although this excludes the highest tax anomaly countries such as Finland and Blair and cure, See Britain Page non-euro countries such as

the UK. In two years, virtually the entire industry's prices will have converged to such an extent there will be that the narrowing of price no reason for most would-be buyers to cross internal EU dropping average pre-tax borders in search of a better deal, he says.

Garel Rhys, professor of motor industry economics at the UK's Cardiff Business arrive within a 5-10 per cent School, also expects convergence at around the 10 per cent level in about a year.

Business and the euro, Page 21

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10 April 201

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generalist and a second

a opposition

#### By Leyla Boulton in Ankara

A veteran political leader named Mr Brez as prime likely next prime minister in Ecevit gave up his earlier what appears to be the final phase in the country's 42day-old political crisis.

Bülent Ecevit, a 73-yearold former Socialist prime minister, had previously given up his efforts to form a new, secularist government after a rightwing rival

refused to support him. change of heart has reinstated Mr Ecevit as favourite for the premiership.

Unless a new administration is in place by Monday, President Süleyman Demirel has the right to name a new administration without requiring the approval of parliament

However, it is thought month, warned yesterday likely that a coalition headed that Turkey needed a new by Mr Ecevit could now command majority support in parliament

Legislative elections are due in April. But in the interim, the powerful Turkish army is keen to keep the Islamic Virtue party from power, even though it is the thigle biggest political frouping.

Yesterday, Yalim Erez, the outgoing trade and industry minister, conceded that he would not be able to form a government after Tansu Ciller, the leader of one of the rightwing groupings in parliament, announced end to the political crisis

President Demirel had has re-emerged as Turkey's minister-designate after Mr

attempts in the light of Ms Ciller's then opposition. Buoyed by the increased

prospect of a coalition headed by Mr Ecevit, the stock market rose 2.21 per cent yesterday. Ms Ciller is reluctant to see Mr Erez, a rival on the

right, improve his chances But her subsequent in the April elections at her party's expense. It is also in Mr Ecevit's interests to run the government until the elections in order to outshine a rival left-

of-centre party, the Republican People's party. Mesut Yilmaz, the outgo-ing prime minister who lost a vote of confidence last that Turkey needed a new government quickly to help steer it through a "sensitive"

period for the economy. He said that this year Turkey stood to gain an influx of new foreign investment and financing from the International Monetary Fund providing it could continue on a modest scale the stabilisation policies and structural reforms begun by his minor-

ity coalition. The armed forces, which play an influential role behind the scenes in Turkish politics, also stepped up their demands for a speedy

#### Socialists | Shock for plan for European | mobile elections

isation where possible".

While containing the UK Inguage on the limits to political integration, it will also use words from Lionel Jospin French prime minister: "Yes to a market economy, but No to a market society." UK officials said the document was likely to receive the support of socialist parties across the EU, in contrast to previous manifestos. It also illustrates how Franco-British relations have become much closer,"

ening co-operation on

into a virtuous economic cycle, reports Leyla Boulton

finalise a solution to the Cyprus problem. Turkish troops are taking part in manoeuvres with the EU's new defence force.

Even though Turkey is not a member of the EU, it has made sufficient inroads into its inflation and budget deficit to qualify for membership of the single currency. the euro, were it to become a

This is not just a fantasy if you subscribe to a new approach emerging on both sides as the only way to improve Turkey's troubled aship with the EU. For the launch of the euro.

described by Turkey's central bank governor as "one of the greatest events of our age", might turn out to be an opportunity, say diplomats and officials in Ankara By setting high standards

of monetary discipline and increasing transparency and competition, Turkey's eurozone neighbours will drag the country into a virtuous

he year is 2006. Talks economic cycle that in the strong. Half Turkey's foreign sponsored by the Euro-pean Union are about to better overall relations, say key's liberal regime on capithose enthused by the idea.

> Turkey were most recently and therefore responsive to, battered by Italy's refusal to external pressures. The cusleader of the PKK Kurdish But they have long been bit-riers, including services and terly divided over a host of agriculture. other political disputes, not least the EU's pursuit of and the possibility that Tur-

Greek and Turkish halves. Bahri Yilmaz, a professor of international economics who is also an adviser to the Turkish foreign ministry, is one of a growing number of if we integrate economically".

the euro will set a "higher standard of macroeconomic policy-making" for Turkish politicians who in recent vears have allowed inflation to reach nearly 100 per cent. The foundations for

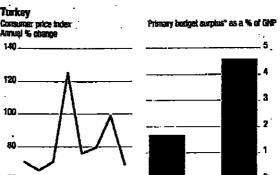
The central bank hopes

tal and currency flows make Ties between the EU and its 60m people vulnerable, extradite Abdullah Ocalan, toms union set up in 1994 provides for the progressive guerrilla group, to Turkey. dismantling of all trade bar-

Even closer economic ties, membership talks with key might participate in a Cyprus, even though the common defence and secuisland remains split into rity policy under discussion at the EU, could in turn improve the political cli-

Alexis Brouhns, Belgian ambassador to Turkey. argues that such a rapexperts to "see more benefits prochement could help Ankara take the "right decisions" in more contentious areas such as human rights and concessions for Kurds in the south-east of the coun-

"If we focus only on political questions, it is clear that little progress will be made in, say, 10 years' time," he improved economic ties are says. "This will create an



even greater distance between Turkey and the EU. If we extend monetary co-operation, it will make

partner in the the European In the short term, the euro is unlikely to change things much. Erol Sabanci, head of Akbank, one of Turkey's biggest private sector banks. says that initially it will be

coming into the picture". But in five or 10 years' time, bank executives believe the picture could change dramatically if Euronean hanks strengthened by the cross-border consolidation that is expected in a single currency area, begin to look for growth in neighbouring markets.

just "one more currency

This in turn could speed long-overdue restructuring

of the Turkish banking sector, and a similar positive knock-on could spread in other parts of the economy,

Ali Tigrel, an economic and political consultant, banks, capital markets, instipoints out that in the short term, most Turkish companies will be preoccupied with surviving an economic slowdown and credit squeeze triggered by the emerging markets crisis.

director of Edip, a yarn manufacturer, says survival is the priority over the next

euro's introduction: pricing by his European competitors will be much more transparquoting prices in a common currency. And this in turn defence structure.

might help him gain market

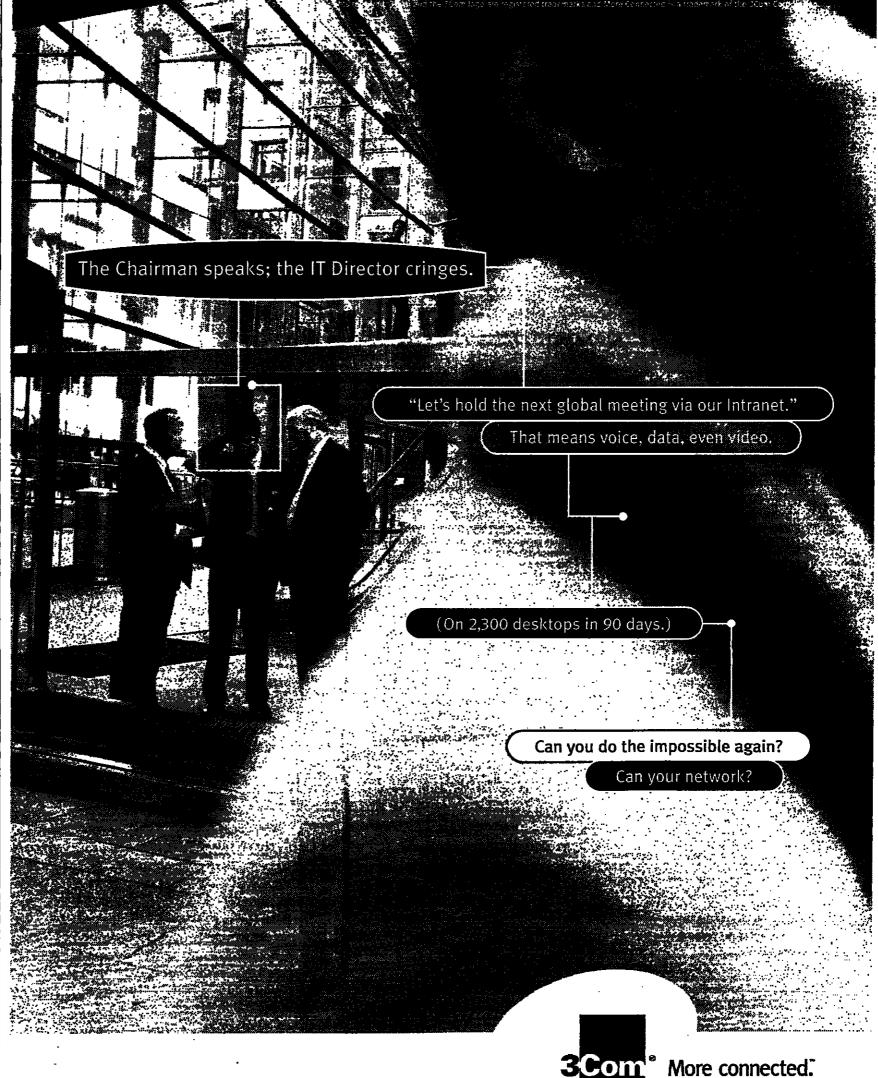
share at their expense. Longer-term, says 'Mr Tigrel, private sector companies handicapped by high domestic inflation and interest rates could step up pressure on Turkish politicians to fix the economy to help them compete with European rivals expected to become more efficient in a single currency area.

"The opportunities, choices, and advantages which will be available to us in such a large and efficient market will go hand in hand with our approach," says Gazi Ercel, governor of the Turkish central bank, which has worked hard to help prepare Turkish banks for the

"For this reason, only tutions and governments that prepare themselves well during this transition period will be able to obtain the

maximum benefits." But Turkey will still need political stability to fix its Kenan Koc, managing shaky public finances, cut double-digit inflation and privatise a still large, if shrinking, state sector.

Moreover, Turkey's power-However, he can sec one ful armed forces, which are immediate benefit from the often seen as an obstacle to improving political ties, could develop a vested interest in closer integration ent, since they will all start because of their desire to join a future European



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# that she would now be

#### Andrew Parker, Folitical Correspondent

European socialist parties will today finalise a draft manifesto for June's European parliament elections, which is to include a strong endorsement of the euro as

an engine for job creation. The manifesto, to be pubiched in Marci edges there will be more qualified majority voting in the European Union's council of ministers, as part of further political integration between member states.

However, in language taken from Britain's ruling Labour party, the manifesto will argue for "integration where necessary, decentral-The centre-left is in power

13 of the 15 EU member states. The manifesto for the Party of European Socialists has been drawn up by a working party chaired by Robin Cook, UK foreign secretary, and assisted by Henri Nallet, European affairs spokesman for France's ruling Socialist party.

UK officials said the 3,000word document was largely free of European jargon and could supplement the British Labour party's separate national manifesto as a campaigning tool in the run up to the European elections. It will stress that Europe's main challenge is to tackle unemployment.

The document is expected to represent a compromise between the different political philosophies underpinning the UK and French socialist parties.

one official said. Mr Cook said: "My role in chairing the working party shows the British Labour party is very much engaged

in the European debate." The manifesto will commit the socialist parties to deep-

defence matters. on tax, the document knowledges the need for a 'code of conduct to ensure | touted competition and liberthere is no harmful tax com- alisation of the telecoms petition between member market, these increases states. "There is no commitment to have qualified listic behaviour that threatmajority voting on taxation | ens to have negative effects

### Italian addicts

Italians addicted to mobile phones got a nasty shock yesterday when the cost of calling cellular telephones from fixed lines soared. Reuters reports from Rome.

Under a "simplification" of tariffs ordered by the communications watchdog, the charge for telephoning a portable from a land line surged

Only so-called "family" subscriptions, which give some private users cheaper rates in the evening, Saw prices fall. For them, daytime calls on weekdays will now be 24 per cent cheaper. But even those users were saddled with an 83 per cent increase for calls at night and during the weekend.

It was a heavy blow for a country that is the world's biggest devotee of cellular telephones after the Nordic nations.

Mobile services are operated by Telecom Italia Mobile, a unit of Telecom

the tariff simplification ends up dealing a blow to users'

'It is peculiar that

Italia, and Omnitel, jointly owned by Italy's Olivetti and Germany's Mannesmann. Last year, a third licence was awarded to Wind, a consortium led by state-run electricity group Enel, which includes France Telecom and Deutsche Telekom. The government is planning a tender for a fourth licence.

For corporate users, the tariff rises were especially steep. The new system introduced a single rate for business calls whatever the time of day, replacing a sliding scale that allowed cheaper rates in off-peak periods.

That change makes busiess calls at night more than 153 per cent dearer, with evening charges up 120 per cent and afternoon calls 56 per cent more expensive.

Confartigianato, an organi sation representing self-employed workers, slammed the changes as grim news for companies.

It is peculiar that the tariff simplification ends up dealing a sharp blow to users," the association said.

"Instead of the muchseem to reinforce a monopoa UK official on companies competitive-

defence of the UN's integrity and impartiality following reports that its disarmament commission in Iraq had been used by US intelligence as cover for spying.

Washington Post and the Boston Globe said that Mr Annan had received evithe US listen to sensitive communication between to weapons inspections, states' national purpose, lary of the Security Council close to the secretary-

Earlier, Richard Butler, Unscom's chairman, disclosed that more than 40 dence about eavesdropping states, including the US, activities which had helped offered help after Baghdad put up "a wall of resistance"

it was used improperly. "We never accepted or used any of that assistance

he rejected allegations that of the beleaguered Unscom chief, but Mr Eckhardt said this was "not so", and there was no discussion of other candidates. He emphasised for any other purpose," he said. "Not for any member that Unscom was a subsid-

when he became aware that the press reports were being

The reports also seemed to cause genuine surprise among some UN officials

As the controversy over Unscom unfolded, Iraq and the UN appeared headed for another crisis, over the fate of British and US humanitarian workers working on the UN oil-for-food programme

Diplomats said the move appeared to be aimed in par-

ticular at the de-mining teams working along Irao's border with Iran and Tur-

### Israel's soft-spoken peacemaker steps into harsh electoral battle

By Avi Machils in Tel Aviv

Israel's former army chief of to become chief of staff in staff, Amnon Lipkin-Shahak. 1995. His tenure was unrefaced the cameras yesterday with the quiet confidence and charismatic smile for which he is known, and announced his candidacy for the premiership.

But after facing the press. Israelis were little the wiser about the mysterious military man who could be the dark horse of the May 17 elections. Launching his campaign

with an appeal for unity failed to mask Mr Shahak's Organisation (PLO). lack of original policies for regional peace or security: published book on the Oslo Yet his avoidance of sound negotiations by Uri Savir. bites and his soft-spoken style, even as he attacked Benjamin Netanyahu, prime minister, may be his biggest asset. Many Israelis are fed up with the empty slogans of Mr Shahak, 54, was born

1962. As a junior officer, he

and rose through the ranks markable. The only big military event was Israel's blitz southern Lebanon in April 1996 which included a devastating failure - the shelling of a United Nations base that killed 100 Lebanese

civilians. But Mr Shahak's last years in uniform are most remembered for his senior role in negotiating the Oslo peace accords between israel and the Palestine Liberation

"The Process", a recently Israel's former chief negotiator, affords some rare glimpses into Mr Shahak's skills. In March. 1994, Mr Shahak was dispatched to Tunis with a small delegation to persuade Yassir Arafat. PLO chairman, to return in Tel Aviv and joined a mil- to the table after an Israeli itary preparatory school in extremist massacred 31 Palestinians in Hebron. Mr Ara-

West Bank town.

Mr Shahak, says the book, began by "expressing in his soft, steady tone, his personal regret for the massacre." He then reassured Mr Arafat that Israel was cracking down on Jewish extremists. Mr Arafat would not The next day, Mr Shahak

PLO guesthouse kitchen, where it took him only 20 minutes to soften Mr Arafat. However, Mr Shahak's involvement in the talks attracted criticism from Mr Netanyahu, then opposition leader, who was angry that the Labour-led government

was employing generals as After Mr Netanyahu's election in 1996, the two had a stormy working relationship. Israeli military correspondents said Mr Shahak vetoed several reckless military was twice awarded Israel's fat demanded an evacuation silence Mr Shahak during a smile.

was expressing political opinions.

These clashes underscore what may prove Mr Shahak's biggest challenge in capturing Israel's centre: shaking off his association with the previous Labour-led government. Mr Shahak's top campaign managers are former aides to Shimon took Mr Arafat aside to the Peres, the previous Israeli prime minister and architect of the Oslo accords. The assassination of Mr

Rabin, his mentor, in November 1995 by a Jewish radical opposed to the peace process, made a deep impact on Mr Shahak's decision to enter politics.

But no general - not even Mr Rabin - ever jumped straight from the army into the premier's seat. With Israel's political system rapidly fragmenting, Mr Shahak must prove he is capable of leading a bitterly divided operations prepared by Mr society and political system. Netanyahu. And last June. And that, will require far



Mr Netanyahu tried to more than a photogenic Lipkin-Shahak announcing his candidacy yesterday. His quie fidence could be his biggest asset in a tough campa

### Khatami on top as ministry admits murder link

By Robin Allen in Dubal

Mohammad Khatami, Iran's to one Iranian analyst, had reformist president, appears been arrested. to have made a dramatic breakthrough in his battle with the hardline clerical establishment after the intel- phe," it said. ligence ministry had to admit that its agents had and unexplained disappearders of secular and intellec- figures and reformist inteltual leaders.

The intelligence ministry. officially known as the information ministry, admitted

to the Tehran press yesterday but nearer 50 according "It tthe intelligence minis-

try) clearly understands the dimensions of this catastro-A series of six murders

larly supporters of Mr Khatami who accused Qorbanali

and discredit the president. All six had been outspoken critics of the clerical estab-

Mr Khatami's apparent failure, until this week, to exert his authority to discover who was responsible was also driving a wedge been involved in recent mur- ances of prominent secular between his more activist supporters who were becomlectuals late last year ing visibly impatient, and shocked Iranians, particu- the "silent majority" of ordinary Iranians.

Since a landslide election that an unspecified number Dorri Najafabadi, the intelli- victory last year pitched Mr the judiciary and foreign of its agents, six according gence minister, of being Khatami into office, he has

consistently tried to translate nationwide support into national authority.

Against him are conservative vested interests, who form the largest group in parliament and are led by Ayatollah Ali Khamenei, Iran's spiritual leader, who has control of many levers of power, including the armed forces, law-enforcement willing to trade information the wall. Ayatollah Khame-units of the interior in return for their own nei will find it harder to jusministry, including the police and security forces, state radio and television,

"the dark forces, a coalition of business and intelligence groups. people who want to monopolise power and have been trying to discredit Mr Khatami and destabilise Iran by terrorist acts." But with Mr Khatami hitting back, "some of the renegades are now

Within these groups are,

safety." Others, like Ali Razin, the diehard head of the Tehran judiciary wounded on Tues- also the secrecy of its day in a grenade attack on operations.

according to Mr Khajehpour, knowing too much, and are themselves targets from the

The president, according to one analyst, "has shown he is capable of exerting his authority in one of the hardliners' most sensitive strongholds. The hardliners, for a change, have their backs to tify not only his own personal control over the intelligence ministry but

SIERRA LEONE CONFLICT

#### Rebel forces seize key areas of Freetown

**NEWS DIGEST** 

Rebels attacking the Sierra Leone capital Freetown yesterday seized President Ahmad Tejan Kabbah's state house and other key areas, witnesses said. Rebel commander Sam Bockarie said his men, attacking from mountain hideouts, would only halt fighting with Nigerian-led peacekeepers if detained rebel leader Foday Sankoh was

Mr Kabbah's whereabouts were not clear but Mr Bockarie said the president might have crossed an estuary to Lungi, site of Sierra Leone's international airport and main base of the Ecomog peacekeeping force.

Mr Bockarie said that his guerrillas had taken over most of Freetown, including the broadcasting station, and that fighting was mostly centred on Waterloo town north of the

But the information minister, Julius Spencer, and Ecomog spokesman Chris Olukolade denied most of the

Mr Sankoh was sentenced to death in October on treason charges over a coup that overthrew Mr Kabbah in May 1997. His rebels backed the military junta that took power until Ecomog troops reinstated Mr Kabbah.

KAZAKHSTAN CAMPAIGN

#### Election 'grossly unfair'

Kazakhstan's presidential election process is "grossly unfair", a US-based human rights group said yesterday. just four days ahead of the ballot. "Coercion, threats and the repression of opposition activists have characterised the presidential election campaign in Kazakhstan," Human Rights Watch said. In a letter to the Organisation for Security and Co-operation in Europe, it said the OSCE should protest by postponing establishment of a field office in Kazakhstan. The OSCE has already criticised the election and warned it would not recognise the results if voting went ahead as planned.

The group attacked President Nursultan Nazarbayev's decision to bring the vote forward from late 2000, saying it allowed his opponents insufficient time to mount a serious

It also said some candidates, including key opposition figures and former prime minister Akezhan Kazhegeldin, had been wrongly banned from the election for minor administrative offences, and the authorities had put pressure on voters and independent media to back Mr Nazarbayev, who is expected to win comfortably on Sunday, extending a reign he started as Kazakhstan's Communist Party chief under Soviet rule. Reuters. Almaty

### Sforecasts gord \$76bn adget surplus

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#### WORLD TRADE

### Airbus wins sales battle on Boeing's home ground

By Christopher Parkes in Los Angeles

Airbus Industrie has extended its reach into rival Boeing's home territory with a deal to sell 30 single-aisle airliners, valued at \$1,3bn, to Boullioun Aviation Services, a German-owned leasing age of Asian orders and company based in Washing-

The contract for 15 A319s and 15 A320s, with deliveries to start in February 2002. plus options on an undis-

nificant US advance for the aircraft. European consortium.

It also suggests there has been no let-up in the price war between the world's leading commercial aircraft makers which has added to Boeing's woes with a shortlong-standing production

Boullioun, recently acquired by Deutsche Bank - which has close links with DaimlerChrysler, a senior Airbus partner - had previ-

Last year British Airways and Trans World Airlines departed from their Boeingonly policies with firm orders for almost 60 Airbus iets, and US Airways ordered first non-Boeing deal in this category.

aircraft, marks a further sig- ously bought only Boeing option for the US company nor its shareholders.

30 wide-bodied A330s in its before Deutsche Bank

The British Airways defection prompted renewed complaints from Boeing about chief executive, and the the Airbus pricing policies, announcement had been with one official saying producing at a loss was not an of Deutsche Bank's takeover.

Noël Forgeard, Airbus chief executive, said Boullioun's order marked the start of a promising relation-Negotiations which began

showed an interest in buying the US company had been concluded last October, according to Robert Genise, delayed pending completion

Boullioun, previously Trust & Banking, is expanding aggressively despite the current slow growth in air traffic, with plans to increase its portfolio to 150 top three in the leasing years.

Its inventory currently comprises 33 Boeings, leased panies had outstanding of about 5 per cent a year. to 16 airlines including Brit-orders and options on about Under the terms of the ish Airways, Air New Zealand and Varig, and it has options on a further 63 Boe-

The company also has a that single-aisle aircraft "can owned by Japan's Sumitomo 35.5 per cent stake in Singa- be managed through a downpore Aircraft Leasing Enter- cycle very nicely." prise (Sale), with 14 airliners on its books, of which half were made by Airbus. Mr Genise said Sale's total could

announcement, the two com-100 aircraft, valued at \$6bn. Mr Genise said the experitraffic in 1991/92 had shown

growth in air traffic were also good, he claimed, because experience demonaircraft by 2005, and join the reach 80 in seven or eight strated that, despite the impact of cyclical dips, yesterday's demand regularly returned to its historical growth rate Under the terms of the contract announced yesterday. Boullioun may change ence of the downturn in air its order and take a mixture

### Reebok **imitators** raided

By Amy Louise Kazmin in New Delhi

Indian

Reebok India has launched a crackdown on Indian companies that have flooded local bazaars and upmarket retail shops with counterfeit versions of their popular sports clothing and cricket bats. Armed with an injunction from the Delhi high court, Reebok officials, local police

and private investigators raided the premises of five manufacturers in New Delhi and two towns in the state of Punjab that had used the Reebok logo to decorate T-shirts, sports clothing and cricket bats without company permission. Hemant Singh, a lawyer

for Reebok, said the plethora of cheap imitations of Reebok products in India's mar kets and shops was eroding the company's elite brand identity. "People who are genuinely wearing Reeboks definitely don't like seeing cheap Reebok products worn by every Tom, Dick and Harry," Mr Singh said. They are very expensive footwear and clothes. You don't want to see your driver and peons wearing the

Merchandise worth an estimated \$25,000 was seized from the manufacturers, a Reebok spokesman said. India, which does not currently recognise product

patents, has been struggling to offer stronger protection to intellectual property rights, including trademarks and company names. In and company names. the Delhi High Court shut down a travelling carnival that called itself the "Disneyland Amusement Park." and sold merchandise using Disney's trademarked characwithout authorisation.

Metball dispute

### Pump makers foresee strong global demand

Peter Marsh reports on an industry that is confident it can escape the effects of the Asian crisis in coming years

range of sectors, from cement production to water treatment, looks set to crank up production substantially over the next few years, in spite of the impact of the Asian economic crisis. While leading pump com-

panies are generally cautious about the short-term outlook in south-east Asia, which has been responsible for much of the industry's expansion in the 1990s, they are confident that other large projects elsewhere will keep the sector whirring convincingly over the next

shape," says Josef Gerstner, chief executive of KSB of Germany, the world's third biggest pump producer and the largest in Europe.

Pumps push liquids or industrial processes, include expand from \$20,400 in 1997 culture working that has a control of the control of

The world's pump indus- tion, chemicals and oil and try, which serves a gas. One of the factors helping to sustain the growth of the world's biggest pump companies is the diversity of their product range; individtral pumps can sell for any thing from a few hundred dollars, for the types that fit in to domestic central heating systems, to several million dollars for pumps used in big oilfield or water controj projects.

Each of the 70 large pumps being fitted by ITT industries of the US, the world's biggest pumpmaker, to an \$18m flood-control system in New Orleans is powerful enough to pump 500,000 gallons of water a minute. while the most sophisticated turbopumps used to create vacuums propel air at three times the speed of sound.

According to a report\* by Freedonia, a US consultancy, gases in a large number of world pump sales will industrial precesses, include expand from \$26.4bn in 1997



Servicing water pumps in Yorkshire, Global output is rising

expansion knocked only types of capital equipment. slightly by a reduction in industry and infrastructure pump sales in the Asia-Padevelopment in countries cific region will expand 49 such as Indonesia. South per cent between 1997 and Korea and Malaysia, which 2002, from \$7.9bn to \$11.8bn. have been badly hit by the This is substantially above

Asian economic turmoil. that growth in other Asian over the same period are nations, such as China and India, which have been less affected by the crisis, North America, which is together with strong demand likely to see a similar expanthe US, will mean pump \$7bn. makers generally will weather the chilly economic that an unexpected side climate worldwide that has effect of the economic prob-

According to Freedonia,

the figure expected for west-The consultancy believes ern Europe - where sales forecast to grow 33 per cent, from \$9bn to \$12bn - and for In continental Europe and sion in sales, from \$5.2bn to The consultancy thinks

region, caused by the competitive boost many producers in this part of the world have gained as a result of rencies. Manufacturers in the Asia Pacific region will be responsible for about a third of world pump production in 2002, Freedonia forecasts, up from less than a quarter in 1992.

sharp fall in pump sales. demand for pumps in China is continuing to expand at up to 15 per cent a year, according to Mr Gerstner of

output of pumps from the Australia, while sales of marine pumps in South expected for 1998. Korea, driven by a rebound in the country's shipbuilding industry helped by the devalthe devaluation of local cur- uation of the Korean currency, are also climbing. according to Sir Ron.

"The industry is set for a better time over the next few and gas services and engiyears than many people expect," he says. A disappointment for the While parts of south-east industry generally, however.

Asia have experienced a has been weakness in demand for pumps in South America and Eastern Europe, says Dick Labrecque, chief executive of the pumps division of ITT. Mr Labrecque is less optimistic Sir Ron Garrick, chief than other industry players executive of Weir, Britain's about the short-term trends biggest pump maker, also in the industry: he reckons

sales much above the \$1.8bn But taking a rosier view is David Devonshire, chief

financial officer of Ingersoll-Rand, another big US pumpmaker, which runs its pump division as a joint venture with Halliburton, the US oil neering company. Mr Devonshire says the industry is being given a general boost by extra spending on water treatment projects, driven by tougher environmental legislation in parts of Europe and the US. Extra demand due to such projects in these regions is helping to compensate for lower pump demand in parts of Asia, says Mr Devonshire.

\*World Pumps, Freedonia, ters, including Mickey reports strong growth in his company in 1999 is 767 Beta Drive. Cleveland, Mouse and Donald Buck,

الهكذامن الأمهل

### Backlash puts renewed pressure on Republicans

pied for Us

医最后支付精验 网络海洋鼠传

**美格特森教工会的**工工工具。

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Shortly after noon today, a gaunt figure in sombre judicial garb will swear an oath in the well of the Senate floor and proceed to open what has already been somewhat predictably dubbed the Trial of the Century.

William Rehnquist will be only the second chief justice in US history to exercise the most extraordinary and con- are weighing heavily on the sequential of his constitu- minds of all those involved tional duties - presiding over the impeachment trial of the president.

But the opening ceremony - in which the articles of impeachment passed by the House of Representatives will be read to senators by Henry Hyde, chairman of the House Judiciary Committee. and senators sworn in as jurors - is about the only part of the proceedings clearly foreseeable.

Negotiations are expected to continue right up to the start of business between Senate Republicans, Democrats, the House "managers" of the trial and the White a massive collapse in popu-

House. They hope to reach lar support since then, an almost indecently quick by then a so far elusive

The reason the haggling has been so intense is not simply because historical how to try a president accused of "high crimes and

It is that delicate political calculations about the case except perhaps the unelected chief justice-for-life, Mr Most Republicans believe

that President Bill Clinton's alleged offences - perjury should be thoroughly examined in the Senate courtroom. But they are acutely aware of the political toll that the Monica Lewinsky affair has taken on their party. So far it has more or less directly cost them two Speakers of the House, the loss of five House seats in last November's mid-term congressional elections, and

president has aroused widespread disgust at those - the Republican party - deemed responsible. According to party's standing has sunk impeachment last month to

are understandably eager to call a halt to the bloodletting. A large number of Republican senators are defending narrowly won seats in the 2000 elections, and party bosses are anxious to dispose of the Lewinsky affair and rebuild their fortunes in time for a tilt at the presidency when Mr Clinton For all the popular pieties

senators are more politically vulnerable to shifts in voters' opinions than House That was the reason Trent

Opinion polls indicate the trial Concerned at the prosagreement on how to pro- unpopular prosecution of the pect of a prolonged trial featherself to Linda Tripp, Kenprecedent is so patchy on one poll at the weekend, the Lott asked his colleagues for views on an abbreviated prosince the House voted cedure. It would last four days and would feature no its lowest level since Richard witnesses. At the end a vote Senate Republican leaders whether or not the offences Mr Clinton was alleged to have committed were

> tors voted "yea" to that the number ultimately required to secure Mr Clin ton's conviction and removal from office – would the trial continue. If - as seems likely - fewer that two-thirds voted yes, the Senate would then move to consider a censure resolution.

Given that all 45 Senate Democrats seemed prepared have needed the support of Lott, the Republican Senate only six of the 55 Republiminority leader, last week cans to gain the simple that some sort of open floated his "trial balloon" of majority needed for approval -ended trial would begin.

51 (simple majority) Number needed to approve almost any 1**00** Total number of decision on how the trial 45 Number of Democrats Home and dry 34 tember needed to block a conviction and to curtail the trial and move straight to a vote on a lease Only if two-thirds of sena-Pressure risina: an a full trial of uncertain dural

> of any procedural motion. But the balloon crashed to earth with a thud in the last the risk of a protracted and few days as Republican senators shot it down. And as negotiations continued yes- not about the average votterday it was still unclear er's view, but about the attiwould emerge. But the likeliest outcome seemed to be

impeachment trial outlook

Why do Republican senators seem so anxious to run

Some may be concerned supporters in the party. But there is also a widespread view among Republicans they cannot simply drop the

fulfilling their constitutional duty to conduct a trial.

they must at least start the trial, proceed for a week or two and then find a way of too much damage on them. But that may prove tricky. Once the proceedings begin

eachment issue without Yesterday, the White House stepped up the pressure by warning if a single witness would call numerous people to testify in his defence. The process, lasting months, ending in the president's acquit-tal, and damaging the

### **US** forecasts record \$76bn budget surplus

in Washington

The Clinton administration yesterday forecast a federal budget surplus of about \$76bn for the current fiscal year, higher than previously projected, due to robust revenue growth and the continuing strength of the US econ-

Proclaiming that the "era f big deficits is over", President Clinton said the US is on track to register the largest surplus in the country's history in the 1999 fiscal year ending on September 30. But he also warned that fiscal discipline must not be abandoned and repeated his Social Security safety net repaired before other claims on the surplus are enter-

"We worked hard to bring fiscal discipline to produce this surplus," said Mr Clinton. "Like any family with long-term financial needs and a little more earnings than we expected, we can't go out and spend the surplus today. We have to plan for the future."

The US registered a surplus of \$70bn in fiscal 1998, the first in 29 years after a long string of federal defi-

The administration's latest estimate is higher than its original prediction of last May, when the Office of Management and Budget from coast to coast, Renters projected a fiscal 1999 surplus of \$54bn. A strong surge in revenues from taxes. including capital gains receipts, contributed to the higher than expected income for the federal treasury.

Congressional estimates of the surplus, as calculated by the Congressional Budget Office (CBO), are due to be updated later this month before the president presents his fiscal 2000 budget in February. In November, the CBO projected a \$63bn surplus for fiscal 1999. In the context of the over-

surplus is small. But it is producing a political quandary for Mr Clinton and the Republican-led Congress as the two sides square off over budget priorities.

Surpluses are expected to total more than \$1,500bn over the next decade. With the Social Security retirement system bound for insolvency by 2032 if nothing is done to restore it. the administration says saving Social Security is its number one domestic priority.

Many Republicans, however, wish to see the surpluses used to finance tax cuts. And many economists have urged the government oft-voiced desire to see the to use at least a portion of

> 'We can't go out and spend the surplus today. We have to plan for the future'

the excess money to pay down some of the \$5,500bn national debt Sales of new homes in the

US hit a new record in November, the government reported yesterday, as ample job opportunities and soaring levels of consumer optimism fuelled sales increases

The Commerce Department said that new home sales jumped 7.6 per cent to a seasonally adjusted annual rate of 965,000 following an upwardly revised 6.4 per cent gain in October to 897,000 instead of 851,000 as

previously reported. The monthly sales rate during November eclipsed Wall Street economists' forecasts for a gain in sales to 873,000 a year and underlined vigorous consumer demand in the domestic

### Accord nearer in basketball dispute

By Richard Waters in New York

An 11th-hour compromise yesterday looked set to save basketball from becoming offs, time was running out to the first professional sport in the US to lose an entire season to a labour dispute.

It also promised to limit some of the damage suffered by NBC, the television network owned by General Electric, which has relied on the sport for some of its biggest audiences and highest dvertising rates. The National Basketball

Association had set today as a deadline for deciding normally generate during a whether to call off its entire basketball season. season. A lock-out by team owners, prompted by a dis- divided over how to share pute over pay, has meant the nearly \$30n in revenues that no games have been that the NBA expects to genplayed since the season's erate this year, most of it scheduled start last October.

league games scheduled to run only until April, leading to the widely followed playmount a serious season.

The threat of losing the play-offs appeared yesterday to have been enough to draw the two sides far enough from their positions to reach a compromise. The knockout games at the end of the season draw by far the biggest television audience, contributing an estimated twothirds of all the advertising revenue that NBC would

The two sides had been

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### China lowers growth hopes

By James Kynge in Beifing

China's finance minister, leave no room for opti-Xiang Huaicheng, yesterday mism." Mr Xiang said in a painted a bleak portrait of statement. "Therefore, the the country's economic prospects this year and forecast that an increased budget deficit would be needed to spur economic growth.

He said export growth was expected to be low or negative in 1999 as a result of the Asian economic crisis, while weak demand and troubles in the state enterprise sector would add to pressure on the economy. According to official figures, the Chinese economy grew at 7.8 per cent in 1998, down from 8.8 per cent in 1997. Many economists believe that official figures overstate reality by sev-

economic situations in 1999 Chinese government will continue to pursue proactive fiscal policies, which would necessarily increase the budgetary outlays to a certain extent."

Mr Xiang's remarks repreassessment of China's economic prospects in 1999 vet heard by a senior leader. He forecast a budget deficit this year of RMB105.3bn (\$12.7bn), up from RMB96bn last year, but added that the deficit could well be higher than his prediction.

into account RMB50bn of a stimulate growth. The fact RMB100bn special infrastructure that Mr Xiang is now proposture bond issue in August, ing a fiscal relaxation is an Mr Xiang's RMB105.3bn forecast for this year's deficit cerned Belling has become includes the RMB50bn left over its bleak future, and from the bond issue. It is possible, finance min-

istry officials said, that extra rate the economy. Succesbonds would be issued this year for another fiscal stimulus package, thereby adding sent the most downbeat to the deficit. Mr Xiang moved to allay fears that deflationary phase. China's retail price index was 2.6 per cent down in 1998, compared with a year earlier.

said late last year that China tially set at RMB46bn but would not resort to new fiswas expanded after taking cal initiatives in 1999 to banking system.

indication both of how conthat it lacks alternative tontes with which to reinvigoproven largely ineffective.

Mr Xiang said China was also expected to increase its issue of treasury bonds from such deficit spending could RMB280bn last year to lead to inflation by noting RMB316.5bn this year. He RMB280bn last year to that the economy was in a added that Beijing was unlikely to launch a bond issue to recapitalise the troubled state banking system this year, but did not rule it Several senior officials out. Last year, the government issued RMB270bn in bonds to recapitalise the



### Industrial parks' tax perks to be phased out

China threw into doubt yesterday the future of 44 important industrial parks across the country, including a US\$20bn Singaporean flagship project trumpeted by the city-state's leaders as the optimum way for foreign manufacturers to enter the unpredictable Chinese mar-

An announcement by Xiang Huaicheng, the these two taxes have been lost income by raising fee finance minister, that China collected by the companies charges to tenants, the ana-

industrial parks appeared set to jeopardise the revenue stream of the companies that run the "economic and technology development zones".

Mr Xiang said the central government would either impact on the thousands of time the 100 per cent rebate many foreign companies the zones have received on value-added and consump- lysts said. With time, howtion tax that they should pay ever, the zones' management to the government. Because will phase out some of the managing the zones, the lysts added.

rebates have constituted an important source of revenue. But although the disappearance of this revenue is expected to hit the companies running the parks, it may not have any direct

which occupy the zones, anacould seek to recoup their

would help create a level playing field for all compaeign companies] made the investments, we told them to tion one day. Of course, withdraw or reduce over enterprises - including when that day arrives, they will suffer losses and start complaining." Mr Xiang fied the need for fiscal revesaid. "This is normal."

The withdrawal of tax perks for industrial zones central government will was also motivated by an withdraw relates for zones acute shortage of central which have been set up for government revenues and 10 years or more. For those

China's tax base. Between 1978 and 1995, budgetary revnies in China. "When [for- enues shrank from 35 per cent of gross domestic product to 11 per cent. A signifiprepare for equal competi- cant fiscal stimulus package launched last year and an increased budget deficit forecast this year have intensi-

Under the new rules, the

The crisis in Japan's

construction sector deepened

in November, in spite of the

thousands of billions of ven

Japan sees fall

Mr Xiang said the move the relative shrinkage of established five years ago, it will reduce the rate to 75 per cent in the sixth year, 50 per cent in the seventh, 25 per cent in the eighth and zero in the ninth.

The Singaporean park in Suzhou, near Shanghai. being developed by a government-linked consortium over a 20-year period, is to receive special treatment. Its rebate rate will fall from 1999 to 80 per cent. 60 per cent in 2000. 40 per cent in 2001, 20 per cent in 2002 and zero in 2003,

### Gitic creditors called to meeting

By Louise Lucas in Hong Kong

Guangdong International Trust and Investment Corp (Gitic), the Chinese investment agency, has called a ent. meeting of creditors on Sunday following its closure on October 6.

was unclear whether or not Gitic's closure sent jitters Gitic would on Sunday issue repayment guidelines, which some had expected to come out yesterday after the dead-

and a filled the figure of the first of the filles of the

faxed invitation merely said guarantee of repayment. creditors would be informed of "the liquidating situation of Gitic assets and liabilities," according to a recipi-

Last week it emerged that Gitic had debts in excess of \$2.5bn, higher than the origithrough the banking com-

Following Gitic's closure, there has been far greater uncertainty: while Beijing has said that registered debts will be repaid, and that foreign creditors will be made a priority, until guidelines are issued bankers

Bankers said yesterday it nal \$2bn market estimates. remain wary. That wariness has grown in the three months since munity, as the provincial Gitic was closed, particularly government backing of as China faces other prob-"itics", or investment agen- lems, including a deceleraline for registering their cies, had previously been tion in economic growth and exposure had elapsed. The regarded as a cast-iron the upheaval of restructur-

in construction ing its state-owned sector. Moreover, the status of some loans is unclear, such as short-term credit lines and loans to Gitic's overseas subsidiaries.

Yesterday Standard & Poor's, the US credit rating agency, lowered its ratings for Guangdong Enterprises (Holdings) - which also has the backing of Guangdong provincial government - following its proposal to freeze principal repayment on its debt obligations until April

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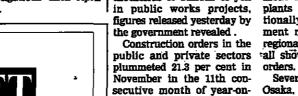
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year declines, according to data published yesterday by the construction ministry's economic analysis unit FINANCIAL TIMES **NEW MEDIA AND** 

more than half of total con- several decades that struction demand, slumped required the issuance of 19.7 per cent to Y638bn bonds to support public (\$5.7bn), while public orders slipped 14.7 per cent to Y362bn for the second month a contraction in tax reverunning. The most striking declines tant to borrow any further.

were among manufacturers where orders collapsed 53 struction orders is also likely per cent against the same to add to Japan's growing period last year for the unemployment problem. eighth month of slowdown -Although orders from the a marked increase of bankcentral government jumped ruptcies in 1998, employs impact of economic stimulus packages approved by Keizo

The data confirmed suspi- pull the economy out of its cions that regional munici-

palities, facing a deepening war period.

orders again try's prolonged recession. are not spending funds allo cated by Tokyo for public

works. The ministry noted that government's injection of orders for roads, water treatment facilities, and power plants - which were traditionally areas the government relied on to support regional economic activity public and private sectors all showed a contraction in

Several regions, including Osaka, the Tokyo metropolitan area and Kanagawa, a prefecture located next to the capital, are staggering under huge debt burdens as sector, which account for ment policies over the past

> works projects. Local governments, facing nues, are increasingly reluc-A continued slump in con

This is because the conand regional governments. struction sector, which saw 15.8 per cent, reflecting the about 10 per cent of the total workforce.

With the jobless rate Obuchi, prime minister, already at a record 4.4 per local government orders cent, the data are likely to plunged 28.2 per cent com- put additional pressure on pared wiht the same period the Obuchi administration to introduce new measures to worst recession in the post-

### **NEWS DIGEST**

INTEREST RATE RAISED

### Taiwan tries to ease life for hard-pressed banks

Taiwan threw another lifeline to its banks yesterday, hoping they would pump loans into the slowing economy amid faltering confidence in the financial markets. Central bank vice-governor, Shea Jia-dong, said the bank was raising the interest it pays on blinks' mandatory

reserve accounts to 3.2 per cent from 2.7 per cent. The bank had increased the rate on November 16 for the first time since 1975. Mr Shea said adjusting the interest rate on mandatory reserves was preferable to cutting reserve requirements as it would more directly help the banks rather than the

money market, which already is flush with liquidity. "Banking system liquidity is already loose, so it's not the proper time to cut reserve requirements." Air Shea said. "But [the move] will lower banks' funding cost and alleviate businesses and individuals' interest rate burden on loans."

He said the rate increase, which takes effect on Thursday, would boost banking system liquidity by TS93.2bn

(US\$2.9bn), or an average of about T\$3.2bn per bank. Asia's recession has slashed demand for Taiwan exports, helping to slow the island's 1998 economic growth to 5 per cent or less from a more typical 6.77 per cent in 1997. The government has enacted a series of measures to jumpstart the slowing economy and halt a sharp decline in share prices, ordering a US\$5bn acceleration of infrastructure projects and forming a USSS.8bn stock stabilisation fund in addition to various monetary stimulus schemes. Reuters, Taipei

#### **CHINESE SPECIAL POLICE**

#### Anti-smuggling force set up

China has set up a 6,000-strong police force as part of a battle against rampant smuggling, state media said yesterday, with another 4,000 officers joining the force by the end of June. "The fight against smuggling is a senous economic and political issue," the official China Daily quoted state councillor Luo Gan as saying.

The People's Daily quoted Mr Luo as saying the new force should "investigate to the end" regardless of who is behind a smuggling racket or how powerful he may be. He warned members of the new force against becoming corrupt themselves. One of the reason for the new force is doubts over the financial probity of existing customs offi-

The crackdown on smuggling has targeted the People's Liberation Army (PLA), police and other government organisations which use access to ports and other official privileges to evade duties. The PLA, police and the judiciary have been ordered to surrender their business empires as part of the crackdown on smuggling. Reuters, Beijing

#### BANGLADESH POLITICS

#### Parties unite over election

Three Bangladeshi opposition parties yesterday announced a tactical alliance to try to force the government of Sheikh Hasina to call an early election. The Jatiya party, led by the ousted military leader General Mohammed Hussain Ershad, and the Jamaat-e-Islami party said they were joining forces with the Bangladesh nationalist party, led by Gen Ershad's former enemy, Khaleda Zia.

The opposition parties threatened to boycott local elections due in February or March unless the government appoints a new chief election commissioner acceptable to them. They also demanded the release of three opposition figures charged last year with the killings of four former government ministers in 1975. David Chazan, Dhaka

#### HONG KONG

#### Tung rules out ministers

Tung Chee-hwa, Hong Kong's chief executive, yesterday ruled out the possibility of the territory adopting a ministe-

rial system, at least in the short term. Mr Tung was speaking after some politicians urged the territory to consider implementing a ministerial system. saying it could bring about more accountability and flexibility in introducing policies. Louise Lucas, Hong Kong

#### **CAMBODIA**

#### Illegal logging crackdown

Cambodia's prime minister, Hun Sen, yesterday ordered a tough crackdown on illegal logging. He ordered the police and military to use armed force if necessary to wipe out what he called "anarchic" logging.

"The armed forces must co-operate with the forestry authorities and other involved institutions. . . and use all means, including weapons, in the crackdown operation," he said in a statement to government departments. His call came a day after the government said it would be seeking to secure \$1.3bn from international donors, concemed about unrestrained logging in Cambodia, at a meeting in Tokyo in February. Reuters, Phnom Penh

JAPAN POLITICS PM PRESSES TEAMS ASSIGNED TASK OF HAMMERING OUT POLICY PACTS

### Obuchi pushes for Liberals link

Keizo Obuchi, Japan's prime minister, left Tokyo for Europe yesterday, with explicit instructions to key members of the ruling Liberal Democratic party (LDP)

forming a coalition. time," Mr Obuchi told five of hammering out policy agreements with the Liberal

to finalise talks with the

opposition Liberal party over

"We must establish a agreed by both parties. coalition government by the start of the regular Diet ses- issues remaining as obstasion. An agreement by the five teams is necessary for are the Liberal party's prothis," Mr Obuchi noted.

many and Italy.

sion begins on January 19, Japan's pacifist constitution. friction. the prospective partners are

tious issues that have held ations are held between Diet from the LDP five years ago. up formation of the coalition members themselves, to as traitors. Further, Mr Ozasince it was first agreed in

Time and again, Mr Obuchi has had to reassure Ichiro Ozawa, Liberal party, leader, that the LDP will stick to its policy agreements. Already, the ruling party

"I hope you do not drag has thrown out, whittled out the talks and take extra down or stalled on several of the original policy demands LDP teams assigned the task Mr Ozawa put to Mr Obuchi as conditions for forming a coalition government and which were supposedly

> The two most important cles to forming a coalition posal to cut the number of

His remarks highlight the parliamentarians by 50 each uncertainty of the domestic in the Upper and Lower made in resolving the stalepolitical situation he is leaving behind during his week- Japan's defence forces to contentious issues: that of long tour of France, Ger- play a bigger role in UN peacekeeping activities than forces. In addition to the pol-With just 12 days to go has been acceptable under before the regular Diet ses- present interpretations of

The Liberal party is also hard pressed to come to calling for introduction of a consider Liberal party mem-

replace the current process in which bureaucrats answer Diet appears ago.

as traitors. Further, Mr Oza- wa's return to the LDP fold has fuelled a process. Diet questions.

Mr Ozawa also wants to introduce a vice-minister support the coalition and system and reduce the number of public servants by 25 per cent. But there is strong resistance within the LDP to his proposals, making it difficult in consensus-oriented Japanese politics to bridge the gap.

Late last night, the two parties agreed to reduce the number of parliamentarians in the Lower House by 10 per cent, or 50, but no agreement was reached on reducing Upper House members by 50 as well, as demanded by the Liberal party.

Nor was much progress the role of the self-defence icy gaps between the two parties, there is personal

terms over several conten- system whereby Diet deliber- bers, most of whom defected being.

within the LDP, between conservative members who more liberal elements who oppose it.

Depending on how it unfolds, the coalition could hold the seeds to the LDP's implosion. But it is unlikely that the talks will break down altogether at this

Failure to form a coalition would spell political disaster for Mr Obucht, who has staked his personal reputation on realising the alliance.

Neither does the Liberal party have much to look forward to if the coalition collapses. Most analysts expect " the party to be deviastated in national elections which must be held before October next year.

The most likely outcome is that the two sides will cobble together an ambiguous emier insists

no policy will An main on track, gro

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MIRSE SPECIAL POLICE

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REINSURANCE BACKGROUND OF 'OVERCAPACITY AND UNDERPRICING' IN LONDON BLAMED FOR MOVE

# aiwan tries to ease Liberty Mutual offshoot quits market

By Jim Kelly in London

Liberty Re, the wholly sidiary of Liberty Mutual Group of the US abruptly ceased operations yesterday in a bleak indication of the state of the London reinsurance market.

The reinsurer, headed by ex-Mercantile & General Re chief executive John Engestrom, was set up in October 1996 with an initial capital base of £250m. "This is symptomatic of the current state of the market," said a

pointed to a "background of operations and its syndicates more than willing to be spite of third quarter stock has been very bearish on the overcapacity and underpricing" in the reinsurance marowned UK reinsurance sub- ket - with no sign of any improvement in the foreseeable future.

Liberty Mutual said current Libert Re policies will remain in force until their expiration dates and the company will meet all of its service and coverage commitments to policyholders.

Edmund Kelly, president and CEO of Liberty Mutual, said the group was still fully committed to the London and European primary marleading broker. A statement kets through its direct UK

market for 35 years.

Mr Engestrom will leave Liberty Re and Mr Kelly said tal and resources to more he had tried to create a new company in what turned out if not impossible market". wide in 500 offices and has Company UK will takeover responsibility for Libert Re with \$11bn in consolidated

operations. Mr Kelly said yesterday that the group was willing to • UK pension funds commit capital when returns were adequate. "We are

at the Lloyd's market. It has patient but when it becomes been in the subscription clear adequate returns are overriding sense of bearish look at what actually hapnot likely in the foreseeable future we will redeploy capi-

productive uses."

The Boston-based group to be "an extremely difficult employs 29,000 people world-Richard Hazell, chairman of more than \$47bn in consoli-Liberty Mutual Insurance dated assets, \$57bn in assets under management and, revenue, ranks 132nd in the Fortune 500.

returned an average of more than 14 per cent last year in

market volatility and an markets generally but if you ness about world markets, pened in 1998 it could be one Jane Martingon writes

Preliminary figures from WM company, the performance measurement group. found the average fund had benefited from rising stock markets in the west. An average return of 11 per cent for funds with some £450bn of assets under management compares with a 20-year average of 9 per cent and inflation of significantly less. fund now holds half of its Peter Warrington, a director at WM, said: "Everyone

of the best years yet."

The strong performance came in spite of the fact that the average fund expected market corrections in the period. Funds continued to reduce their holdings in UK equities last year, the largest part of their portfolios. largely as a result of bearishness about the market. WM estimates that the average assets in UK equities, the lowest level for 10 years.

#### **NEWS DIGEST**

**CAR INDUSTRY** 

#### **Output at Nissan factory** rises by 6.3% to record

Output at the Nissan plant in north-east England, Europe's most productive car factory, increased by 6.3 per cent last year to a record 288,838 vehicles. In 1986, its first year of production, it made 5,139, Nissan said the 1998 record resulted from strong European demand following the introduction of a new Primera estate car and a newly-styled version of the Micra. Since 1986, Nissan has spent £6.8bn (\$11.4bn, €9.5bn) on components with 200 European suppliers, 70 per cent in the UK. The plant has been judged Europe's most productive for two years in succession by the Economist intelligence Unit. In 1997, the plant made a

£77.3m pre-tax profit. VA TECH Reyrolle, a north-east England manufacturer of transmission and distribution equipment acquired by Austrian-owned VA TECH from Rolls-Royce last Septem ber, has announced 90 redundancies. It blamed the Asian market downtum, sterling's continuing strength and the UK government's moratorium on gas power station building. Chris Tighe, Newcastle upon Tyne

UNIT TRUST SCANDAL

#### Ex-MGAM chief reprimanded

Imro, the fund management watchdog, ended its role in the Peter Young unit trust scandal yesterday with a repri-mand for Keith Percy, former chief executive of Morgan Grenfell Asset Management, an offshoot of Deutsche Bank. A reprimand is the weakest form of public censure imposed by Imro. The affair came to light in September 1996 following the discovery of serious irregularities in the running of unit trusts managed by Mr Young, the former star fund manager. Mr Percy, sacked by Morgan Grenfell in 1996, said he "accepted the proper responsibility which must fall to the person in charge of any business when something like this happens". But he added that the Imro investigation led him to conclude that chief executives should not rely on their management team or compliance staff, Imro retorted: "You can delegate functions and responsibilities but you can't abdicate all responsibility" settling the case, Mr Percy agreed to four regulatory breaches that largely involved a failure to check that investment irregularities were adequately dealt with. Yesterday's announcement allows Mr Percy to resume a fully registered lob. He is set to become a director of SG Asset Management, Jane Martinson, London

#### **GOVERNMENT SPENDING**

#### MPs attack defence contracts

The Ministry of Defence is severely criticised today by the House of Commons public accounts committee, which says a £3bn (\$5bn, €4.2bn) cost overrun on 25 big procurement projects is "unacceptable". The committee complains that the MoD "could give us no sense of the speed or scale of improvements they hoped to achieve in relation to cost control". It attacks the ministry for failing to extract adequate damages from contractors for problematic equipment. The ministry, acknowledging the PAC had found "management of major projects is weak in almost every respect", said its streamlined procurement initiative

### Scottish land reform stirs old emotions

Plans to make it easier for communities to buy estates on which they live will be among the first proposals the Scottish parliament will examine. James Buxton reports

ership in Scotland that the government intends land reform to be one among the communities which, or so first legislation passed by most Scots consider, should the country's new parliament, to open this year in

Edinburgh, the capital. Most Scots live in towns, and tension between landowners and local people is rare in the thinly populated countryside.

But land ownership remains a highly contentious issue. This is partly because of the notorious "Highland clearances" in the 19th century, which saw hundreds of thousands of people evicted or encouraged to leave the land on which their ancestors had often lived for centuries for the cities, or countries such as Canada and the US. In many cases families had built the homes which were often burned and demolished to many opportunities for new create large estates for sheep farming which replaced the traditional cattle-rearing business.

Jim Hunter, chairman of Highlands and Islands Enterprise, the economic development body for the

t is a measure of the emo- "Scots as a whole continue tion aroused by land own- to blame landlords both for the clearances and the subsequent disintegration of have been permitted to sur-

vive.' There is also indignation at a system under which about 60 per cent of rural

Scotland is in the hands of some 1,400 owners.

#### Minister stresses links with N Ireland

Scotland and Northern Ireland have a "unique opportunity" to forge close working relationships under the Northern Ireland peace agreement, the UK Dewar, chief minister for Scotland, and Mo Mowlam, chief minister for Northern Ireland, said the planned British-Irish Council offered relationships within the British Isles. The ministers

Scottish parliament. relationships to "boost north of Scotland, has said: co-operation on issues of

for many Scots by the fact that some of these owners are English rather than Scottish, or from continental Europe, the US or the Middle East. They are often absent from their properties for all but a few weeks a year and trade their properties at high prices over the heads of the

Resentment has grown in attention.

island of Rigg, off the west

government believes. Donald met in Glasgow, Scotland, to discuss preparations for the

Ms Mowlam said it was important to develop new

land's occupants.

the past decade, fuelled by a few landlords whose actions have received heavy media The small and picturesque

common interest" and share deas on issues that affect all parts of the UK and the Republic of Ireland. She added: "I am convinced that the British-Irish Council will become an important forum for strengthening the links

between all parts of the United Kingdom and Ireland." She stressed the close family and historical links between Scotland and Northern Ireland and said she was keen that the consultative steering group an all-party body drawing up the details of how Scotland's parliament will work - should visit Northern

Ireland to exchange

have the right to buy estates on which they lived, when they came on the market, at a price set by a governmentappointed valuer. This price could be lower than another purchaser's offer.

movement".

backing.

The outcome could over time be a reduction in the number of private estates that cover much of rural

chase the properties they

inhabit by depressing prices

and making funds available

from the National Lottery's

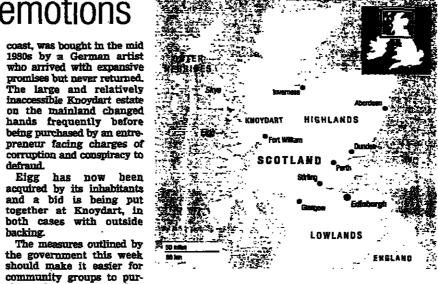
New Opportunities fund,

Donald Dewar, chief minis-

ter for Scotland, said it was

but clearly there will be

Residents' groups would



Scotland, especially in the Highlands.

The Scottish Landowners' Federation said the measures were an excessive was little public support - to not necessarily a policy "to break up the great estates, a few cases of bad landlords. It cautioned against the government using taxpavers' money to buy properties that were not economically via-

> It also questioned what criteria would be used to determine whether a landowner's behaviour merited the compulsory purchase.

> Others question how widely the measures are likely to be implemented. "Very few estates will

> appeal to their local commu-

property with Knight Frank, the estate agent. "Even if community groups can buy them cheaply, who is going to pay to keep them going? It's a well-known fact that Highland estates lose a packet." He also said it would be unfair for landowners to

nities," says Colin Strang

Steel, a specialist in country

have to sell their land at a price dictated by a government valuer rather than market value. "It's not very different from nationalisation," he

added. This article is the third in a series about the onset of regional assemblies in the

was tackling the weaknesses. Alexander Nicoll, London

### Euro policy will | Anti-republican remain on track, group bombs premier insists

By Robert Peston, Political Editor, in Pretoria

Tony Blair, the UK prime minister, denied yesterday that the resignation from his government last month of Peter Mandelson, an enthusiastic supporter of the European Union, would weaken the government's support for Mr Mandelson, a leading

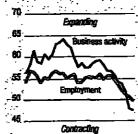
Blair ally in the governing Labour party, quit after disclosures about a loan he had received from another minis-Stephen Byers, Mr Mandel-

son's successor as chief tions with Thabo Mbeki, trade minister, had been south Africa's deputy presinstructed to deliver to big dent. He is widely expected companies the same message to succeed Nelson Mandela as that given by Mr Mandelson: that the government as president later this year.

• The UK's economic slowwas determined to make the down appears to have worsnecessary preparations for ened in the final weeks of

to draw a line under his gov-

his official visit to South ness conditions in nearly a Africa, the primary purpose of which is to cement rela-



joining the euro. But Mr last year, with one in four Blair also made clear he would not be rushed into joining.

last year, with one in four service sector companies reporting a fall in their workload during December, The prime minister tried Richard Adams writes. The latest survey of the services ernment's worst two weeks industry also found the secby insisting his cabinet was tor was shedding jobs for the "ideologically united" and first time since the Chardenouncing suggestions of a tered institute of Purchasing Frift with Gordon Brown, chancellor of the exchequer.
These domestic concerns
These domestic concerns dominated the first day of companies, covering busi-

# NI sports club

paramilitary group yester- ment saying: "Our members day claimed responsibility are practising Protestant for a bomb attack on a worshippers. We are pre-Gaelic football club in North- pared to defend our people

was the second bombing fear from us, but the true claimed by the Orange Vol- enemies will be targeted." unteers, whom republicans accuse of being a flag of convenience for the vehemently anti-republican Loyalist Volunteer Force. Last month the LVF

became the first terror group in Northern Ireland to start dismantling its arsenal, without an escort. when it delivered a number of guns to the international decommissioning body for destruction. But Sinn Fein, Orange Volunteers is a front for the continued activity of the LVF, which is nominally on ceasefire.

booby-trap bomb in the who resisted. I grounds of the club in seriously hurt. County Londonderry. It Police suspect mander who drinks in the republican paramilitaries.

announced its creation in A dissident "loyalist" November, it issued a stateand if it comes to the crunch One man was injured in we will assassinate the enethe explosion at Magherafelt mies of Ulster. Ordinary in the centre of the region. It Catholics have nothing to

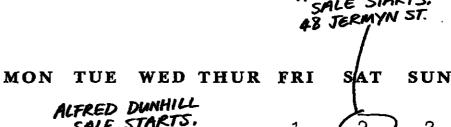
> Meanwhile the government of the Irish Republic was criticised after it emerged that a security van from which thousands of pounds were stolen on Monday had been travelling through Dublin, the capital,

The Brinks-Allied security van contained IR£1.2m (\$1.8m, €2m) cash after collecting money from up to 30 the political wing of the Irish banks in Dublin when it was Republican Army, says the rammed. Five men loaded some of the contents into their getaway car, which then broke down, prompting them to steal another car The group said it planted a and shoot the man inside who resisted. He was not

Police suspect the Contiexploded at midday yester- nuity IRA - the only republiday, slightly injuring a can paramilitary group not workman. The Orange Volon ceasefire – may have unteers last month said a been behind the robbery.
bomb attack on a bar had The men wore flak jackets been "an attempt to assassi- and carried AK 47 rifles - a nate a senior IRA com- weapon associated with

### ANUARY 1999

ALFRED DUNHILL SALE STARTS.



15

ALFRED DUNHILL SALE STARTS. 5 ROYAL EXCHANGE.

12

19

18

13 14

ROYAL EXCHANGE

23 JERMYN ST.

SALE ENDS

16

10

17

#### ALFRED DUNHILL LONDON

FOR FURTHER INFORMATION TEL: 0171 290 8600

The study, published at Society's annual occupa- utation of UK managers with consultation and participa- said, maintained a strong society's annual occupational psychology conferthat of the meritocratic hiretional psychology conferthat of the meritocratic hiretion than their British counrecognition of hierarchy and ence, looked at the manage and fire culture of their US terparts," said Ms Senior. ment styles of 310 US and counterparts, said Ms Senior.

ampton. The British Psychological the "quaint and clubby" rep-European managers.

Many of the differences
between UK and US managers
ers during the 1970s and towards the US model. But

Changing attitudes in the UK companies, she said.

UK companies, she said.

Other US ideas moving into myself; somebody else towards the US model. But

still have a hankering and continental European

"If I was lecturing in Changing attitudes in the ment had now taken hold in France I wouldn't carry my

see editorial comment BRITISH PSYCHOLOGICAL SOCIETY RESEARCHERS REPORT SHIFT FROM EUROPEAN APPROACH

third of the UK economy.

US management ideas 'take hold'

By Richard Donkin in Blackpool

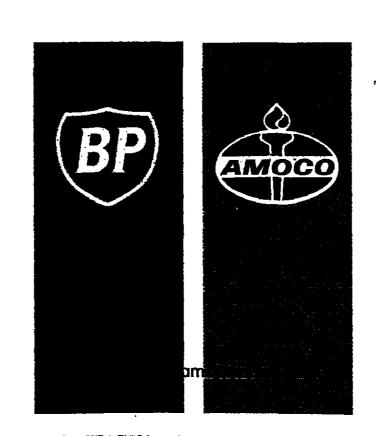
1980s have disappeared, differences still remained, more frequent profit reporting, a concentration on she added.

British managers are Professor Peter Lawrence of Professor Peter Lawrence On Pr emulating their US counter Loughborough University to work in a systemised, cerns for short-term perforparts and moving away from and Barbara Senior, a man-ordered way. They have mance, the report added. European management agement lecturer at Nene manuals on everything and styles, researchers reported University College, North-Earlier studies contrasted towards bureaucracy and management styles. The

The study found far more

pulc to which cock

# 66/00/9



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**CLEMENT CRISP** 

Lyceum Theatre, London

Birmingham Royal Ballet has been installed for a Christmas season at The

Lyceum in London with, of course, The Nutcracker. This

news might be greeted with some despair, were it not for

the fact that Peter Wright's

staging is so delightful, so apt, so sensitive, and that BRB's dancers give it such

loving attention. I went to

the matinee performance on

Tuesday - just before Epiph-

any, when such Yuletide

decorations should be taken

down - and was as

delighted as ever by what I

saw. (The seeing of it by no

means easy in the Lyceum.

whose stalls are not well

raked. Santa alone knows

how some of the tots who

were having their seasonal treat managed! Still, they

had the consolations of the

theatre's lurid decoration,

all gilt and raspberry-sorbet

blush, like Mae West's idea of Le Petit Trianon.)

Among the several

- how well BRB's dancers

maintain their, and our,

Interest in the action - were

the debuts of two young

BALLET

The Nuteracker

**CINEMA** 

### A colourful tribute to Hitchcock

Nigel Andrews confesses that he had become all steamed up over nothing

like a military commander. video, why not let them have opinions that way - charge!" He should never say, "Men, we go that way; on second thoughts it might be better this way; hang on, let me think about this a moment." Before you know it Napoleon has become Hamlet, and to mix Shakespeare plays I-dare-not waits upon

Take Psycho. How can anyone have a simple opin-ion about the most complex

**PSYCHO** Gus Van Sant

LITTLE VOICE Mark Herman

Darren Aronofsky

THE SIEGE Edward Zwick

cine-proposition of the moment? When Gus Van Sant announced his decision to remake Hitchcock's classic shot for shot, though updated, re-cast and in colour, commentators including me went into flabbergastedof-Fleet Street mode. What's the point? What a nerve.

What an idea. And so on. Then a few brave countersouls said, "Hey, man. But it's just like a film equivalent of conceptual art. 'It's the thought that counts'." We were prompted to see Psycho as cinema's equivalent to a shark in formaldehyde, upsetting but also intriguing, challenging and new-frontier.

This oddity from the maker of Drugstore Cowboy, My Own Private Idaho and Good Will Hunting is all those tier blockhouse in brick, things, though it seems to grime and stunted gable. me more like an Andy Since people don't see Hitch-

A film critic teels he must be any more, just on TV or "Men, we shall take our a large-screen experience refashioned for the late 1990s? The original will still be around: it is preserved, inter alia, in the Library of Congress

The changes made by Van Sant are few but multi-directional. Instead of Janet Leigh's boldly defined Marion Crane, a late-'50s sensualist with a dash of pre-feminism, we have Anne Heche playing a jittery Miss Town Mouse who decides to jump the treadmill. By contrast, Anthony Perkins's masterclass in flakiness as Norman Bates – a virtuoso with twitches and stammers is replaced by Vince

Vaughn's more muted modern-day anti-hero, with his leaky-tap giggle, batrachian eyes and subtly unturned top lip. (Van San lights from below to pick out this feature, half-sensual half-sinis-

Meanwhile John Gavin and Vera Miles, supersquares in the first film as Marion's boyfriend and sister, are improved on by creepy he-man Viggo Mortensen (of A Perfect Murder) counter-culturish Julianne Moore, trailing clouds of neurasthenia from Safe and Boogic Nights.

Everyone who dies does so Hitchcock-style, from Heche expiring in the shower in a stroboscopy of rapid cutting, to William H. Macy's detective Arbogast walking backwards down the stairs pursued by a kitchen knife. Van Sant sometimes inserts a grace-note, like the cut-ins of stormy cloudscape in the the old Psycho the tribute of shower scene. And the Bates house is not the Gothic folly now cheapened by familiarity (you can still see it on the Universal Studio tour) but a drabber, darker, nas-

I found the film absorbing. Warhol soup tin: devoutly Colour alone lends a new lookalike, defiantly gnomic, dimension. Van Sant has pop-iconic, and with its own heraldic fun pitting the crime-enhanced new dawn of bility. The logic is sound too. Marion's life - nervously assertive in a costuming of



By finale time, when the police psychiatrist (a nice turn from Jackie Brown's mind - a speech treated here, as surely in Hitchcock, as a joke – and Norman does his "won't hurt a fly" skullnot letting it alone. Any durable classic should be able to withstand time's bombardments of homage. satire, pastiche, even aesthetic vandalism. And whatever else Van Sant is, he is

Little Voice is written and the first word must have

no vandal.

the greens of Norman, evok- felt assaulted by everything, ing nature and/or mildew. from Brenda Blethyn's banshee mother - the Yorkshire accent could be prosecuted for criminal ear damage – to Robert Forster) delivers his the sentimental convulsions over-explication of Norman's of a plot in which reclusive but impersonation-gifted daughter Jane Horrocks "finds her voice" one night on a club stage but won't go grin, we feel anything but back again and be exploited, cheated. This *Psycho* pays having also found (ahh!) her soul. She can now burn the Garland, Dietrich and Bassey records that she and her late-worshipped father so

of a time as Horrocks's brief agent-manager, while everyone else in the cast ends up beached. Caine knows how to avoid being thrown in on directed by Mark Herman, of the tide of mushy inspira-Brassed Off, from the hit tionalism. He looks born to play by Jim Cartwright. I vulgarity, especially in his never saw this hit play but gold medallion and floral behind stock market movedressing gown ensemble, yet

Michael Caine has a whale

wit than anyone. That him, thinks that a secret doctors taking DNA samples, includes Ms Horrocks, tiresomely timorous except with the showbiz vocals, and Ewan MacGregor flitting through briefly as her pigeon-rearing admirer. Pigeons - get it? Flight and dom? Symbolic? It is that

kind of film. Pi is a movie about how mathematics can drive you mad, made on a budget any producer could stay sane with: \$60,000. Whether writer-director Darren Aronoisky stayed sane is another matter. The film looks like a Rorschach test gone berserk. Black and white photography, spider-trampled in appearance, is the medium for this fable of a semicrazed maths wizard (played by co-scenarist Sean Gullette) who is convinced that complex number patterns lie

number sequence defines the very identity of God. Pi was all but guaranteed

cult status after winning Best Director prize at the barometric Sundance Film Festival. It is a mess, but a mess with panache. It bugs symbolising computer bugs, a milk spiral in coffee once again standing in for Chaos Theory. (Could someone please find a new image.) But it also enjoys its silent-movie looks, its richly gestural acting and what seems a genuinely passionate obsession with the wisdom of Pythagoras. You do not get that kind of amour fou in the average popcorn

month. New York falls victim to Islamic terrorism in The Siege and calls in the army. Head-and-shoulders TV shots ments. In turn a giant of Bill Clinton, the rest of

rap out presidential soundbites. And Denzel Washington (FBI). Annette Bening (CIA) and Bruce Willis (Army) squabble over who should take charge in fighting these guys with dishlabours the obvious: real script's ethnic slur, not mine).

This could have been an intelligent political action movie. We would like to know who controls America in a terrorist emergency. since compared to Britain the place is a virgin in such matters. But under Edward Glory Zwick's direction there is too much puffing and blowing and shouting; too many chases for their own sake; and too much of Willis, furrowing action-hero eyes to represent the comic-strip response to emergency while Washington and Bening try

- foolish, wistful folk ~ to

dancers in leading roles. The Sugar Plum was taken by Nao Sakuma, very pretty, very easy in style, delightful in setting out the dance. Nothing is asked of the interpreter save technical grace, and this Sakuma gave us without seeming effort. The dance was grateful and natural as bird-song. Charming the way she phrased and paced movement - and how good to see the authentic Ivanov choreography for the celesta-ringing solo - and irresistible her air of gentle

> A happy debut. No less so that of Chi Cao as her cavalier. I have reported with much pleasure on Cao's dancing since his appearance in a Royal Ballet School graduation performance a few years ago. Every role I have seen him take has been enhanced by a precise and admirably formed classic style. He is not tall for a balletic cavalier, but his dancing has grand dimensions, horizons, a largeness of means that are the signs of a true premier danseur. In the some what blank conditions of Nutcracker's grand pas de excitement by the buoyant clarity of his dancing and by its beautiful finish – exact fifth positions; harmonious placing of the torso; true nobility. Here was dancing of rare academic distinction - to delight purists - but also warmed by the fire of theatrical expression. We can anticipate splendid

authority in the part.

For the rest, the compahearted, warm-hearted. The full of magic, worked its spell, and at a season when Good King Herod's view of infant care seems especially formers from the Royal Bal-

things from him.

### Coward at his most masterful

THEATRE

**ALASTAIR MACAULAY** A Song at Twilight r King's Head Theatre, London N1

The Noël Coward centenary is off to a bracing start with this revival of his seldom-seen but excellent 1966 play A Song at Twilight a play that is honest and morally precise where Coward was (in public) usually evasive and frivo-

This is one of Coward's few portrait-of-the-artist plays. At first, it seems like a 20-years-on variation on Present Laughter, his most sur-

efire portrait-of-the-artist comedy. its protagonist and, more surpris-The celebrated Sir Hugo Latymer, ingly, addresses the ethical and old flame Constance Collier revisnow entering old age, is seen at bome; his wife Hilde doubles as his secretary; his old flame Carlotta is expected for dinner; a handsome waiter is in attendance. The whole thing, at first, feels like a chamber-scale precis of known

Coward effects. Gradually, however, A Song at Twilight disarms the audience by becoming something quite unlike any previous Coward play. It is about character, sexuality, honesty, understanding, and repression; and it unfolds like something by losen, full of suspense as it discloses the surprising past of psychological implications of ited him one evening and two, these disclosures.

not to the actual plot but to its long repression and misogynistic implications - is that (a) Sir Hugo pretence at heterosexuality. But is revealed as a long-closeted homosexual: (b) his long years of material really shows him to have denial and of vaunted heterosex- been what he was so long nickual inclinations are shown to named: The Master. have turned his talent from a penetrating vision into mere effective- for example, Carlotta seems and Nyree Dawn Porter plays Carness; (c) his cruel defensiveness is unsure of whether Sir Hugo is lotta. Theirs are not ideal perforshown to have made him a friend- now a profound or superficial artless misanthrope.

The actual germs of the play were twofold: one, the comic story

the more sinister and long-term What does happen next - I refer story of Somerset Maugham's life-Coward's handling of this basic

> ist. More important, the conclu- as an ill, old writer who has been sion - accepted by all present on stage - that Sir Hugo's one great as a femme fotale. But it is very

made public because it was squan- subtle and complex performance. merit" is really horrid. Yet one The King's Head revival is

directed by a Coward expert, Sherattention. Everyone speaks their lines with unusual musicality, and the play blooms accordingly. There are a few imperfections: Corin Redgrave plays Sir Hugo mances: it is hard to see Redgrave repressing his gay core, or Porter of how Max Beerbohm found him-homosexual affair need not be touching to see that she gives a the more for that.

dered on "a creature of little As does Redgrave; both of them spring many expressive surprises forgives them because Coward in their delivery. There should be ends the play with Sir Hugo at greater tension between them at last coming out of denial. No, this numerous points, and yet Porter is not a Gay Pride ending. But it makes a virtue out of her very is psychologically impressive, and fragility and short-breathed style, as does Redgrave from his blustery forcefulness.

Matthew Bose has the physical idan Morley, and it holds the full and expressive style to make an | ny's dancing was wholeimpression as the waiter but one does not believe in a half-Italian magic, and it is a staging who mispronounces "Giovanni". The evening's most splendid performance is that of Kika Markham as the put-upon but resourceful Hilde. How gratefully, in attractive, the child per-Coward's many Coward vehicles, Coward wrote for the non-Coward let School were well-mancharacters. One admires him all nered and well worth

Orchestra: conducted by Michael

INTERNATIONAL

### Arts Guide

**AMSTERDAM** 

**EXHIBITION** Rijksmuseum Tel: 31-20-673 2121 The Festival of Lithography: celebration of the 200th anniversary of the discovery of lithography. The exhibition consists of works from the collection, including tithographs by Toulouse-Lautrec, works by Cezanne, Manet, and Dutch artists including Van Gogh; to Jan 10

CHICAGO EXHIBITION Art Institute Of Chicago Tel: 1-312-443 3600 www.artic.edu Mary Cassatt: Modern Women. 125 paintings, drawings and prints by the only American invited to exhibit in the Impressionist exhibitions in Paris. Closely associated with Degas, Monet and Pisarro, in later life she became a celebrated collector and patron. The show will travel to Boston and Washington later this year, to

Jan 10

COLOGNE **OPERA** Oper der Stadt Tel: 49-221-221 8240 Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 8

**COPENHAGEN** EXHIBITION Louisiana Museum of Modern Art. Humlebaek Tel: 45-4919 0719 www.louisiana.dk Joan Miró: major retrospective of the Spanish Surrealist painter comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer, to

HAMBURG EXHIBITION Kunsthalle Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to

Jan 10

LONDON CONCERT Barbican Hall Tel: 44-171-638 8891 London Symphony Orchestra: conducted by Ryusuke Numaiiri in works by Saint-Saens and Tchaikovsky, as well as the UK premiere of Sofia Gubaidulina's The Canticle of the Sun'. Featuring cello soloist Mstislav Rostropovich; Jan 13 EXHIBITION

Victoria and Albert Museum Tel: 44-171-938 8500 Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition, which arrives in London after touring in Japan, marks the centenary of Beardsley's tragically early death, aged 25; to Jan 10

THEATRE Albery Tel: 44-171-876 1115 Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy moves from its October run in the Almeida Theatre to the West End. Comic duo Sean Foley and Harnish McColl play the title roles; Jan 7, 8, 9

The same the same of the same to the same that the same that the same that the same to the same that the same that

Tel: 44-171-928 2252 Betrayat: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and imogen Stubbs: Lyttleton Theatre; Jan 8, 9, 11, 12

LOS ANGELES

**OPERA** L. A. Opera, Dorothy Chandler Pavilion Tel: 1-213-972 8001 www.laopera.org Madama Butterfly: by Puccini. Conducted by Marco Guldarini and directed by Christopher Harian. With a cast including Yoko Watanabe, Richard Leech and John Atkins; Jan 10, 13

**NEW YORK** EXHIBITIONS Guggenheim Museum Sollo Tel: 1-212-423 3500 www.guggenhelm.org Premises: Invested Spaces in Visual Arts, Architecture & Design from France, 1958-1998, Exploration of the different ways in which artists have engaged with space. Display ranges across installation, film, video. photography and architecture. Includes works by Yves Klein, Le Corbusier, Louise Bourgeois and Sophie Calle; to Jan 10

Metropolitan Museum of Art Tel: 1-212-879 5500 www.metmuseum.org` The Nature of Islamic Ornament, Part II: Vegetal Patterns, Second in a four-part series on Islamic omament from the 9th to the

18th century. Includes rare brocades and carpets; to

Pierpont Morgan Library Tel: 1-212-685 0008 Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt and Dürer, with particular emphasis on the modernists Matisse and Picasso; to Jan 8

**OPERA** Metropolitan Opera, Lincoln Tel: 1-212-362 6000 www.metopera.org Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Jan 9, 14

**PARIS** CONCERTS -Salle Pleyel Tel: 33-1-4561 6589 Orchestre de Paris: conducted by Alan Gilbert in works by Ravel, Dutilieux and Schumann; Jan 7 Orchestre de Paris: conducted by Lorin Maazel in works by Weber, Debussy, Schubert and Ravel; Jan 13, 14

EXHIBITION Grand Palais Tel: 33-1-4413 1730 Lorenzo Lotto: Rediscovered Master of the Renaissance, 50 paintings, many of them on loan from churches and museums in Italy: to Jan 11

PRAGUE THEATRE National Theatre of Prague Tel: 420-2-2108 0131 www.anet.cz/nd The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 11

ROTTERDAM EXHIBITION Kunsthal Tel: 31-10-440 0300 Up to the bare bones: Human remains in museums. An estimated hundred thousand human beings find their last resting place in Dutch museums whether in the form of mummies, skulls, skeletons, reliquaries or otherwise. This exhibition is the first to address this ohenomenon directly, presenting exhibits from medical, sacral, ethnographical and archaeological collections; to Jan 10

SAN FRANCISCO CONCERTS Davies Symphony Hall Tel: 1-415-864 6000 www.stsymphony.org New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Shostakovich: Jan 10

San Francisco Symphony

Tilson Thomas in works by Ives, Bemstein and Prokofiev: Jan 13, 14

WASHINGTON

watching.

**OPERA** Washington Opera, Kennedy Tel: 1-202-295 2400 www.dc-opera.org Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted here by Heinz Fricke; Eisenhower Theater; Jan 7, 9, 11, 13

**■ TV AND RADIO**  WORLD SERVICE BBC World Service radio for Europe can be received in

westem Europe on medium wave

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19.30: World Business Today 22.00: World Business Today Business/Market Reports:

05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20;

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN **ECONOMIC VIEWPOINT** 

### Cracks in Wall St

The most worrying feature of the world economy is the future of a US boom stoked up by inflated share prices

The main economic query for 1999 does not concern the euro, it does not even concern the emerging economies or Japan, it concerns the US.

Indeed it is time western policymakers stopped lecturing Japan on what to do. That country accounts for about a sixth of the output of the industrial world, its exports amount to less than 9 per cent of its gross domestic product. Over the years, US hectoring of Japan has had a negative influence. Professor Ronald McKinnon has argued that: "American mercantile pressure on Japan from 1971 to 1995 to ver the yen up, and fear that that pressure may return, is the root cause of Japan's current deflation and

Whether or not it is "the root cause", the appreciation of the yen from Y300 to the dollar in 1971 to around Y100 រោ 1985, partly under US prodding, did indeed make an important contribution to Japan's current malaise. Prof McKinnon is, in any case, right to argue that the dollar exchange rate cannot be used as an "instrumental variable" for reducing the L'S current account deficit which mainly reflects extremely low saving in the US itself

it would, in fact, be unfortunate if US savings behaviour were abruptly corrected. For what happens in the US is make-or-break for the world economy this year and next. The US ecunomy is twice the size of Japan's. Like Japan, it is a continental economy. But the US has a much greater effect on the rest of the world. Wall Street's ups and downs, for instance, usually trieger large sympathetic movements in other stock exchanges.

The US boom has been fed by a record rundown in the financial balance of the private sector. The deterioration has been in the entire private sector and not just in personal finances. The rundown has been sustained, up to now, by

portfolio appreciation due to the rising level of stock prices. As Andrew Smithers has pointed out,\*\* the large buyers of equities, who have been keeping the market up, have been US corporations buying their own stock or engaged in takeover operations. The US Federal Reserve

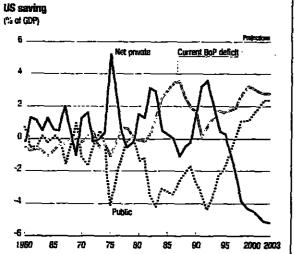
now faces a classic dijemma Should it tighten policy to let the air out of the Wall Street boom or should it loosen policy for fear that alarms about emerging markets and falling domestic confidence might already be sowing the seeds of recession?

Most forecasting organisations expect US growth to slow from about 3': per cent in 1998 to 1!≥ per cent in 1999. This is something with which the

world can live. It would, indeed, be a healthy reaction to excessively rapid growth in the past. It is the fear that Wall Street prices are much too high, and could therefore snap, that produces the risk that the US could experience a serious downturn rather than a benign slowdown. The Organisation for

Economic Co-operation and Development has studied many different estimates of the effects of Wall Street on the level of spending in the US. The remarkable consensus is that a 20 per cent fall in US equities could lead to a drop in consumption of about 0.7 per cent, accompanied by a larger proportionate impact on investment. So even without secondary or confidence effects, real GDP would be about 1 per cent lower than might otherwise be expected. If equities were to fall by 40 per cent, the US economy would almost certainly tip over into a serious recession.

US equity prices are now much higher than in December 1996, when Alan



Greenspan, chairman of the Fed, made his famous remark about "irrational

exuberance" As always, there are two sides to the argument. The most sober case of the optimists has been presented by Goldman Sachs. Its economists avoid the trap of talking about the "new paradigm" which is supposed to give the US rapid, inflation-free growth forever. Instead, they put the emphasis on the new world of low or negligible inflation. This should reduce the nominal interest rate at which future dividends are

discounted. They also

will be lower in an

believe that the level of risk

environment of stable prices, thus justifying a lower risk Nevertheless, the IMF, in its December Interim Assessment, did take into account lower interest rates when it asked what level of nominal equity earnings growth would justify recent equity price levels. Its estimate is 714 per cent a year. This is not very different from the average of the last four decades when inflation averaged more than 4 per cent. But it is scarcely credible that profits could grow at the required rate if inflation remains at its

The most pessimistic case comes from Tim Congdon in the December Lombard Street Research Economic Review. He reminds us that measures of broad money and credit, so far from indicating any kind of crunch, have shown near double digit growth in the last few months. In his view this has been associated with large, although suppressed, overheating of the US economy. The overheating has not shown up in inflation partly because of the fall in commodity and oil prices

current level of just over 1

per cent.

but also because much of the excess demand has gone into imports. On present trends. he projects that the US would have net overseas liabilities equal to 50 per cent of GDP by 2010. My own guess is that those who worry about Wall Street are near the truth: and I

impact not only on the US but also on the world

But, unlike Mr Congdon, would not put so much emphasis on the US balance of payments. Not only does such an emphasia play into the hands of protectionists, it overlooks the numerous ways in which the balance of payments takes care of itself in a world of floating

exchange rates and free capital movements. It was this balance of payments obsession and distrust of self-correcting forces that explains, but does not excuse, the willingness of otherwise moderate and sensible British officials to draft the hideous idiocy of Operation Brutus, a fallback plan which would have imposed

an almost Stalinist siege economy in Britain in the event of severe problems with sterling in 1968-69. This was a horror which the British establishment successfully concealed from us until the opening, at the end of last year, of the official papers for 1968 under the 30-year rule.

For the time being the US

is acting as world buyer of last resort: and it is quite rational for residents of countries with surplus savings, such as Japan, to lend to it. Obviously the US external debt ratio cannot rise indefinitely. A soaring US current account deficit will eventually hit the dollar. And if the dollar fell too quickly, even in an economy where trade accounts for only around one tenth of GDP, it would eventually affect the inflation outlook and cause

monetary policy to be

tighter than it would

otherwise be. The Fed's best course which is easier for Greenspan's born-again critics to recommend than to prescribe in detail - is to try to keep US nominal demand rising at a non-inflationary rate and not to fall back into the mercantilist trap of becoming obsessed with overseas trade returns.

\*Exchange Rate Co-ordination for Surmounting the East Asian Currency Crises, Economics \*Piling Up Debt, Smithers

### LETTERS TO THE EDITOR

#### Directors' attitude to euro smacks of an organisation in denial cope with the realities. The Ardross by Alness,

depended on enterprise and letters' column that the director-general of the Institute of Directors thinks that answers by denying the chalbusiness is about maintaining the status quo and closing your mind and options

the euro", January 4). The position set out in this letter looks frighteningly like funk and denial by organisations under serious threat which are unable to

scientific attitude that has Sir. As a scientist who transformed everyday and Scotland IV17 OYB always thought that com- intellectual life for the past merce and industry two centuries, is that an open-ended, open-minded informed risk-taking, I was approach to problems, chal-astonished to read in your lenges and ideas is the most fruitful. Only the weak pretend that they know all the

lenges of the new. If a majority of leaders of business can in all serious-("Directors remain firmly ness sign up to the position opposed to the UK joining set out by Tim Melville-Ross, I shall be converting all my capital into euros and setting off for the continent.

> Anne-Carole Chamler. Achandunie House.

Ross and Cromarty.

From Mr Ian Walsh. Sir. Tim Melville-Ross gives the impression that the Institute of Directors' policy against the UK joining the euro represents the views of 47,000 directors in the coun-

As a member, may I point out that my company disagrees with IoD policy.

lan Walsh. managing director, lan Walsh Consulting (UK) Chatsworth Court, BN20 7JP, UK

#### Do not break | Japanese support for equity market a mistake trade pledges

From Mr Ben Jackson Sir. It would be interesting

to see how Tony Blair approaches the subject of the EU-South Africa trade talks when he meets President Mandela this week ("Blair to press EU on South African trade", January 5). South Africa has already agreed to stop calling its port, port and its sherry. sherry in the European mar ket, and also to phase the terms out in third markets. European insistence that the terms should also be dropped in southern Africa shows that South African commentators are right to

nated by a "grubby scramble" for monopoly rights in South Africa. Mr Blair should work with his colleagues in Europe to make sure no more promises to South Africa are broken.

say that the end-game of

these talks is being domi-

Ben Jackson, director, Action for Southern Africa. 28 Penton Street, London N1 9SA

1950s and should not be From Mr Ken Takasu,

Sir, The Japanese government will be making a grave mistake if it follows policy recommendations to prop up the Japanese equity market ("Business chiefs urge Japan to buy up to 10 per cent of stock market", December 9). It is even more saddening that influential Japanese business leaders should sug-

gest it. My opposition does not centre on the Ministry of Finance and Bank of Japan's fears that it could put more pressure on the government bond market. Rather, what Japan needs is more unwinding of cross-shareholdings which may or may not lead to lower equity prices.

What is essential to the revitalisation of the Japanese economy is a jolt of shareholder capitalism.

What is missing in the policv recommendations to support stock prices is the realisation that equity means ownership. Widespread cross-shareholding only 117 Rast 57th St. 40A. emerged in Japan in the New York, NY 10022, USA

viewed as a necessary feature for stability and suc-

Instead, in the present global economic environment, it may prevent the corporate flexibility and entrepreneurial spirit that drives innovation. I suspect that the policy

recommendation is driven by the fear that still lower equity prices will lead to further credit tightening by Japanese banks. Stock prices will fall if they are too expensive.

Japan does not lack the private savings that could be moved into stocks and demographic trends favour hold-What the Japanese public

in general must learn is that the stock market is not a large gambling casino but a way for individuals to partner with successful busi-

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could shrink to between 25

revenue over the next three

Europe's success in the

sultancy Ovum, western

Europe will grow from 89m

connections at the end of

1998 to 183m by the end of

2002. The US will grow from

78m connections at the end

of 1998 to 161m by the end of

tions at the end of 1998, will

Some parts of Asia and

other developing regions

have the greatest potential

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grow to 128m.

s editor@fl.com Published letters are also evalishe on the FT web site, http://www.FT.com Transletion may be available letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

would expect a severe

enough correction in US

equities to have a spillover

PINANCIAL TIMES Conferences

### EAST AFRICA

From Co-operation to Community Developing an Agenda for the 21st Century 27 January 1999 - London

A treaty establishing an East African Community, providing for a Common Market for Kenya, Tanzania and Uganda, is due to be ratified by the three heads of state by the middle of 1999.

Senior ministers from the three East African countries and speakers from the international business community will examine recent progress in the East African Co-operation process and discuss the implications of the treaty on investment and growth in the region.

Led by Mr Quentin Peel, International Affairs Editor and Mr Michael Holman, Africa Editor of the Financial Times, speakers will include:

HE Chief Emeka Anvaoku CON

Ambassador Francis Mathaura Executive Secretary
Secretarian of the Commission for East African Co-operation

Rt Hen Clare Short MP Secretary of State for International Development

Mr Philip Lowe Director-General DG VIII (Development) European Commission

Mr Christopher Fay

Tier African Lakes Corporation PLC Mr TIG Barrasford

Mr Gareth Bullock

General Manager, Africa Standard Chartered Bank Mr Peter Pooley CMG

Chairman Brissin-African Business Association Mr Tim Davidson

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### Mobile and going places

Alan Cane looks at the future of telecommunications following the proposed merger of two leading cellular companies he proposed merger use. It becomes part of you, turbulence, groups such as years of traditional fixed lim

between Vodafone union which would produce a cellular giant with global reach, technical capability and a market capitalisation of \$110bn, is the clearest sign yet that the future of tele-

communications is wireless. "VodaTouch", if it were to come about, would be one of the largest telecoms groups in the world. Not only would its market capitalisation put it on a par with with the largest fixed line international operators, such as AT&T, Deutsche Telekom and British Telecommunications, but its geographic spread of assets around the world should result in significantly lower call charges for

its customers - corporate and residential. Steve Jobber, telecoms analyst with Paribas in London, points out: "I believe a Vodafone and AirTouch group would be able to leverage greater economies of scale than its competitors,

especially within the corporate market. "Many of these potential Europe and joint ownership

But while some economies of scale are certainly deliverable, many observers see the value of the potential merger as conceptual rather than

The emergence of Voda-Touch would confirm for many that wireless will largely replace fixed lines for voice calls and an increasing proportion of other kinds of communications within the decade. Fixed-wire telephony will increasingly be reserved for multimedia – combinations of high fidelity sound. moving video images and data - which require higher capacity transmission channels than can conveniently be provided over the air-

Mike Grant, mobile specialist with Analysys, the Cambridge-based telecoms consultancy, argues: "For personal communications, the mobile phone is going to become dominant over the next five to 10 years because it is convenient and easy to

like your wallet, and makes of the UK and Air- a statement about your life- down, installing new digital Touch of the US, a style Vodafone, for example, technologies, such as GSM is chosen by companies that and CDMA, and pulling like its professional business down prices. Scott Arnold of tinue to to be used both in noted recently: "Our analymore bandwidth than the radio spectrum can easily

provide." That mobile has not to four years." replaced fixed wire to a consequence of pricing. which is still significantly above conventional voice services, and service quality, which can be abysmal.

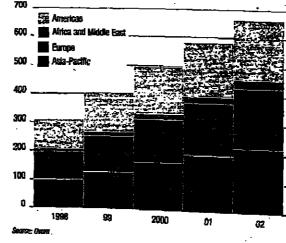
There are also regional factors at play. Although there is explosive growth in cellular subscriptions in most of the world, there are huge differences between the US, Europe and Asia. Development of the US

market has been hampered by an adherence to the older. analogue form of transmission which is more expensive, less efficient and of poorer quality than modern digital technologies, such as GSM, the European and de synergies can only be facto world standard. It is achieved through increasing also held back by the bizarre network ownership in convention that the cost of a call to a mobile phone falls of networks either side of on the called party rather the Atlanic."

courages subscribers from leaving their phones on.

for mobile growth. These The US government's decision in 1994 to auction wiredirectly to mobile systems less spectrum to new because of their easy availentrants is having its effect, ability and low cost of instalhowever. After a period of lation. They are skipping 100

Total connections by region



Omnipoint are settling installations.

The key to the mobile future, however, is the emersystems. This is the princiimage. Wireline will con- the Mckinsey consultancy pal justification for the formation of VodaTouch and the office and the home for sis suggests that net earn-applications which need ings for some companies panies that will undoubtedly emerge through consolidaper cent and 30 per cent of tion. "Third generation systems will be the catalyst for the advent of the wireless future," says James greater extent already is a mobile arena has been the McCafferty of SG Global

consequence of a far-sighted Equities. Third generation systems, Brussels decision to insist on GSM as a standard across known as UMTS in Europe, the continent. It has enabled have been described as offersubscribers to move from ing multimedia services to country to country carrying people on the move. Much of their phones with them and this, however, can already be offered over GSM. Their given the region's key handset manufacturers - Nokia, real importance is the possi-Ericsson, Siemens and bility of establishing a world Alcatel - substantial economobile standard that will enable global "roam-ing"(crossing country bound-According to estimates from the London-based conaries) using a single phone.

Operators able to offer the most attractive roaming terms would be able to attract the lion's share of the lucrative corporate market. By analogy, operators such as AT&T, British Telecom. 2002, while the Asia-Pacific Deutsche Telecom and region, with 73m connec- France Telecom are spending billions to establish global fixed networks to attract the multinational business dollar.

Vodafone and Airtouch. with activities throughout countries are moving the US and Europe and substantial Asian assets, would be well placed to challenge for such business.

The question remains whether the "wireless future" would be better served by "pure play" mobile operators, such as Vodafone. AirTouch and Orange, or by "converged" operators which include both fixed and wireless services in their portfolio. AT&T, for example, can offer both services through its ownership of the former McCaw Cellular.

Some analysts believe greater shareholder value is to be found in pure play stocks. The model may be the Swedish mobile operator Europolitan in which Vodafone and Airtouch both have stakes. With a range of services including a "wireless office" for corporate customers, Mr Jobber of Paribas, for one, believes it is at least a year ahead of the game.

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Blair and Mbeki

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### FINANCIAL TIMES

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Thursday January 7 1999

### Japan's folly

view the appreciation as inevitable and perhaps desirable. If should tolerate this, particu-

so, he is in grave error. When the yen touched 147 to the dollar last August, reasonable people could regard the it still easier to take the expanslide as dangerous. Further yen sionary action Japan despercollapse might have triggered devaluation of the Chinese ren-by only 4.5 per cent in the year minbi and another bout of cur-to November, largely because of rency instability in Asia. In the fragility of Japan's banks. addition, the capital ratios of But the Bank of Japan can fill addition, the capital ratios of Japanese banks were being lowered, since the yen's weakness reduced the value of their yendenominated capital in relation to foreign-currency assets.

This concern about yen weakness - though not necessarily ment bonds to collapse justified, given the dire state of the Japanese economy - was at least defensible. What has happened since then is not. The yen reversed direction after three-cornered international August and has, by now, appreciated 32 per cent against the dollar. This may help Japan's neighbours. But it will aggravate its own problems.

In the year to November, wholesale prices fell 3.6 per cent. The yen appreciation will strengthen the downward pressure. This will, in turn, raise a ceiling for the yen. This is not real interest rates and deepen the Keynesian liquidity trap. It should be done now.

The complacent attitude of the will also undermine the profit-Japanese authorities to the ability of Japan's internationsoaring yen is incomprehensi- ally exposed businesses, worsen ble. It is not just in Japan's export performance and weaken interest to reverse the rise, it is the incentive to invest. In an in its power. Yet Eisuke Sakaki-bara, Japan's vice-minister for 3 per cent last year, further international affairs, seems to sharp contraction looks certain. No responsible policymaker

larly when it is possible to halt the trend. Indeed, the benefit of the strong yen is that it makes ately needs. Broad money grew the gap by buying dollars and to be doing little of either. Instead, it has, incomprehensibly, allowed the yen to soar and the price of Japanese govern-

Keizo Obuchi, the Japanese prime minister is visiting Europe this week, partly to promote the role of the yen in a monetary system which now includes the euro. What Mr Obuchi should be told is that the yen will play a bigger role only if the Japanese economy itself improves. That will not happen if the currency is expected to appreciate in this way, indefinitely. Japan needs to set just desirable, but feasible. It

### Whistle-blowing

The European Commission in ter failed to persuade the parliamassive bureaucracy in compari- ing corrupt officials. He insisted son with those in EU member on keeping investigations under states. Nor is it massively cor- his control. He appeared to resent rupt. But it is inefficient in ensuring that its budget is well spent, not least because it is do. The Commission is overstretched and understaffed. And defending itself against those and mismanagement. charges of inefficiency and occanal corruption that inevitably

Witness its current confrontaa vote of censure aimed at Jacques Santer, the Commission president, and his fellow commissioners. This is blowing the affair up out of all proportion, but the Commission nonetheless has a case to answer and has aggravated matters by its inept mishandling of its defence.

Allegations of cronvism and corruption in the Commission have been under investigation for months in the parliament. Too have been treated as an assault expenses. But, even so, they are on the integrity of the entire justified in seeking to call the Brussels bureaucracy, rather than as a justified attempt to their democratic role. Now it is overcome the notorious difficul- up to the Commission to demon-

Brussels, the executive arm of mentarians of the real progress the European Union, is not a made in curbing fraud and sackthe demands for transparency.

suspension last month of a junior being asked to perform many Commission official, Paul van more jobs than it was set up to Buitenen: He was a classic whistle-blower who had leaked documents to the parliament supit is hopelessly incompetent in porting the allegations of fraud

If anything will persuade the tion with the European parlia- all whistle-blowers, Mr van Buitement, which next week will hold nen has broken the rules to expose a perceived injustice. He may be a fanatic, but he has also exposed some wrong-doing. The Commission will be blamed for picking on a small man while the powerful commissioners stubbornly refuse to admit their own

The parliament is not entirely ahead, its members are keen to gain any publicity they can. They have failed to curb excesses in often charges of impropriety their own system of claiming Commission to account. That is ties of ensuring good governance strate that it can, and will, put its in a multinational body. Mr San- house in order.

### Down on the farm

The worldwide depression in agriculture could threaten moves to liberalise international trade, say Michael Smith and Nikki Tait

n Thailand, agriculture offi-Farming subsidies cials are warning that fights over water rights may . break out among rice farmers as they raise output to compensate for low prices. In central China, grain farmers complain that wheat prices are so low they might as well be selling chaff. On the other side of the world, UK farmers are selling sheep for next to nothing. And in the US, some agricultural prices are so depressed that the administration threw a \$6bn lifebuoy at îarmers late last year. Three or four years ago, farm prices were riding high. With Asia booming and an increasingly affluent China demanding more and more meat, it seemed

that the world could never grow enough food. But just as farmers were expanding output to feed Asia's growing appetite, the calamitous financial crisis hit emerging markets. Demand collapsed, resulting in heavy price cuts for products ranging from meat to cereals and sugar. Some farmers have managed to escape relatively unscathed. Thanks to a favourable exchange

rate and strong marketing, Australian wheat producers are enjoying stronger prices than two years ago. Oilseed and cotton prices also remain robust. Even in the US there are pockets of prosperity. US butter prices, at one stage last year, were twice as high as in 1997. Milk prices in the EU have also been resilient, largely because of a highly regulated market.

But there is no doubt that, as a whole, the downturn in the current farming cycle has been particularly acute. Benchmark wheat futures in

the US in September fell to about half the level of 18 months earlier, while in London white sugar prices are around two-thirds of their mid-1997 levels. Live hogs in the US are trading for less than a third of their value in 1997 and beef prices remain depressed worldwide as a result of scares over mad cow disease and E-coli, and healthier eating trends.

Thailand, the world's largest rice exporter, estimates farm income will fall 16 per cent in the coming agricultural year. The US in September, predicted a similar fall for its farmers in

In the UK, farm incomes are at their lowest level since the 1930s because of poor weather and the strong pound. Danish farmers sav their incomes in 1998 fell b∨ half, with the pig sector's profits reduced to nil. Even China's highly-protected farmers are feeling the pinch following bumper harvests. Beijing has indicated parliamentarians to vote for cen- that rural incomes will have sure - which requires a two- missed the government's target thirds majority - this is it. Like of a 5 per cent increase for 1998. He believes EU countries were farmers there will be no prosperity for the Chinese," the Communist party said recently.

The impact of the current slump in world farm prices could be felt way beyond agricultural communities.

The present downturn follows a period of trade liberalisation pure in this affair. With elections | arising from the Uruguay round of talks that ended in 1992. Free marketeers fear that if prices remain depressed over a protracted period, governments will be less than enthusiastic about embarking on a new round of negotiations on world farm trade. Supporters of deregulation argue that cutting expensive subsidy regimes would stabilise

prices, to the benefit of farmers, consumers and taxpayers alike. But they concede that the momentum for further liberalisation may have been lost.

"It is always easier to push through reforms when farmers do not have their backs to the wall," says Professor Allan Buckwell of London University's Wye College, a free-trade proponent. "It will be harder for the US and the European Union to make the case for change."

How bad, then, are the difficulties and how long can they be expected to last?

If farmers are to be taken at their word, things have never been worse. But then, they have always been highly effective lobbyists. Farmers are notorious for exaggerating their woes to win politicians' sympathy and taxpayers' money.

It is also true that farmers have themselves to blame for some of the problems. In Europe, pig breeders were tempted by high prices to step up production in 1996 and 1997 even though they were warned by the European Commission, among others, that the bonanza would not last.

is absolutely normal," he says. widening the gap with urban right to reject recent calls from incomes. "Without prosperity for some pig farmers for an intervention system to guarantee prices. month announced an \$88m crazy; we were expecting a pack-

Cents per bushel

"People have to be more respon- subsidy package for sugar cane sible," he says. But while farmers should have

expected some price falls, they could not have forecast the severity of the Asian and Russian The Organisation for Economic

Co-operation and Development estimates half of the world price declines are due to normal supply and demand fluctuations, while 35 to 40 per cent can be blamed on the Asian and Russian crises. Demand from Russia, which normally takes a third of the EU's meat exports, has slowed to a trickle. The severity of Asia's problems, meanwhile, is reflected in the 30 per cent drop in wheat imports last year, according to International Grain

Governments have responded in traditional fashion, either with more aid for farmers or with more market intervention. China is tightening its state purchasing system. According to a recent report by one US official: "China's grain reforms are aimed at strengthening state control over the national grain system, rather than making it more market-Guy Legras, the Commission's sensitive. The reforms do little to farming director general, says solve the country's fundamental much of the price downturn was agricultural problems, such as praise for the US aid scheme, round. predictable. "It is the cycle and it chronic over-production and a system."

Council figures.

· · Live hogs

**OBSERVER** 

Cents per pound

producers. In November, the UK provided farmers with a £120m aid package, while France is negotiating aid for pig farmers. The EU has also increased export subsidies throughout the 15-

nation bloc. The country with the deepest pockets has been the US. In a congressional election year, farmers last summer secured early release of about \$5.5bn of "transitional payments" under the 1996 freedom-to-farm act that liberalised the country's farming regime. And, in October, Congress and President Bill Clinton agreed a \$6bn package of direct payments and disaster relief for

Richard Rominger, agriculture department deputy secretary, makes no apologies. "Every government has the sovereign right to help its farmers, but in the way that is least disruptive to trade," he says. The US has been "scrupulous" about staying within World Trade Organisation obligations, he adds. Payments were not linked to production, prices or planting decisions. which the WTO believes distorts

terribly inefficient distribution But he was staggered by the size of the aid package which he

Commodity prices

Commodity Research Bureau Index

age of about \$500m. After what they have done, they cannot pretend they are free market. It strengthens our hand in [future free tradel negotiations," he says. The EU will this year provide a

record €40bn (£28.4bn) for the farm sector. But it also has problems, including the question of how to move its highly protective farm subsidies system closer to market prices. The Commission is trying to win the backing of member states for cuts of up to 30 per cent in the guaranteed prices for milk, beef and cereals. But the proposal was making much headway, even before farm prices began

Meanwhile, the Cairns Group of agricultural free traders, which includes Australia, New Zealand, Thailand and Brazil, is fretting about how far the US and EU will be prepared to go in a new round of farm liberalisation talks, due to start next year. In a recent statement, the

Cairns Group expressed concern at the prospect of a growing use of "tit-for-tat" export subsidies by the US and EU. It said such aid distorted trade. The group called for the abolition of farm export In Brussels, Mr Legras offers subsidies in the next free trade

cultural trade and markets at the OECD, is also concerned about Other countries have preferred believes is out of all proportion to an increase in export subsidies financial solutions. Thailand last the problems being tackled. "It is He says the experience of the past year should reinforce enthusiasm for liberalising trade. "Had there been no restrictions on subsidies, we would have seen lower prices. Free market markets react better to changes in supply and demand and produce more stable prices," he argues.

But many farmers remain unconvinced by the free trade depressed, the voices of the OECD and other free traders could well be drowned by the protectionist clamour.

Additional reporting by Paul Solman, James Harding, Ted Bardacke, Stephen Wyatt and

### Blair and Mbeki

for Tony Blair's first trip to agenda. The two countries have Africa as British prime minister. far more to offer each other. The visit also comes at an appropriate time. While Mr Blair will salute the remarkable achievevisit also provides the opportusen successor. Their objectives should extend beyond South

Although Africa has been low on the UK's agenda, there are good reasons why it should be higher. These range from the renewal of civil war in Angola and the Congo to Nigeria's experience in remoulding the planned return to democracy. Both as a permanent member of the UN security council and because of its commercial interests Britain has a critical role. The first step must be to con-

superpower. This can readily be Trade Unions. achieved. South Africa is seeking continued British support in its efforts to secure better access to the European Union market, and rightly so. The best help the reduction of its crippling external world can give South Africa and other developing countries is to Africa's peace-keeping capacities.

buy their products. pressing the case of the British ground, the visit could mark the companies tendering for arms contracts valued at fibn. If South Britain's relations with South Africa is to play a peacekeeping Africa, and prepare the way for a role in Africa, it needs well equipped armed forces. But this lems of continent still in crisis.

South Africa is the right country should not be top of the bilateral

South Africa's transition from apartheid to democracy remains one of the century's most ments of Nelson Mandela, his remarkable events, but fundamental challenges remain. Crime nity to forge a partnership with is rife, corruption is rising, unemployment is growing, Aids is rampant. Job creation is critical, and, unless South Africa can attract more foreign investment, the economy will remain stag-

And, like old Labour, the ruling African National Congress needs modernising. Mr Blair's Labour party is relevant to Mr Mbeki. It is anachronistic that the ANC will be contesting the forthcoming elections still in an electoral alliance with the South African Communist Party and solidate ties with the region's the Congress of South African

The other vital item on the agenda, however, is the need to address the wider issues affecting the continent, including the debt burden and to strengthen If Mr Mbeki and Mr Blair can

For his part, Mr Blair will be strike a rapport and find common start of a new chapter in fresh initiative to tackle the prob-

Divided by a common currency Russians are no strangers to

currency crises. But the launch of the euro on the world's foreign exchange markets has raised a tricky and sensitive issue: no-one can decide what gender the new medium of exchange should be assigned in the language of Dostoyevsky and Pushkin. Anvone who's ever tried to get

their tongue round the Cyrillic

alphabet will know that Russians take these things seriously. Despite the fact that the "yevro" looks like a neuter word because it ends in an "o" language experts in Moscow argue that it definitely can't be. They would prefer to follow the French ("un euro") and Germans ("der euro") by adopting a masculine gender – an apt choice given the predominantly male composition of the European Central Bank's council.

Expert opinion in London remains divided. The Russian embassy reckons that the euro is "100 per cent feminine", while the Russia branch of the BBC's famously erudite World Service believes that it can be either neuter or masculine. Perhaps they should toss a coin?

#### Bird fancier

So now PwC, the global accounting creature born of last year's spectacular merger, wants imposed a hardly draconian 675

to build one of the world's top law firms. The obstacles in its path are formidable. It might be able to overcome

1995 96 97

the cultural differences that divide lawvers and auditors and New York and London, but what about the chasm that separates the English sense of humour from the rest? Gérard Nicolay. head of PwC's existing legal operations, has just experienced

During a visit to London this week Gérard, a member of the Paris bar, was outlining his vision of the future. Behind him in the corridor, Ian Brindle, the blunt Englishman who was the architect of last year's merger, was cavorting with a fluffy pink emu. The flightless creature danced happily as it was introduced to Gerard: bird and Brindle then flapped away to meet other PwC executives.

Gérard, ever the unflappable Gaul, raised an eyebrow, and shrugged: "It is New Year perhaps?" Someone should tell him Brindle's like that all the

#### Pie in the eye Gerrit Zalm won't be the last

international heavyweight to get an eyeful. The Dutch finance minister on Monday collected two well-aimed custard tarts as he solemnly launched the euro on national television. The following day a Belgian court

fine (\$88 approx) on two other pie throwers for the "mildly violent" act last February of Bill Gates. Not much of a deterrent balanced against the ture of landing a deliciously

richest man. Given the indulgent attitude of the Belgian judiciary, few visitors to Brussels can now be safe from the attentions of les aloupistes - the group of pie tossers or entarteurs master-minded by one Noel

drippy dessert on the world's

Their French-language web site (at gloupgloup.com) promises Gates a second serving in the next few months. Bill Clinton and Tony Blair are said to be next on the list, followed by the Pope and Demi Moore, in recognition of her performance in Gi Jane. it's an ambitious hit-list, but Godin boasts 30 years of

pie-throwing experience since he landed his first pastry, on French novelist Margeurite Duras. Other victims with a Gallic flavour include film-maker JeanLuc Godard and philosopher-cum-media star

Bernard-Henri Levy. Talk about half-baked.

#### Hard lesson

Forget reading, writing and arithmetic. The young citizens of the Russian Far East are getting classroom lessons in how to pay

to get the public finances in order in a country that faces one of the biggest tax delinquency problems in the world. As well as resorting to military tactics to squeeze roubles from non-paying adults. Russian tax officials have decided that education is the way forward.

it's all part of a long-term plan

The set text in the classroom is an inspiring volume titled "Dialogues About Taxes", authored by a local revenue official with a head for figures and a winning way with

You'd have thought teachers would be a bit peeved at having the traditional curriculum hijacked by the taxation brigade. But far from it. Instead of laying down their chalk in protest, educationalists have welcomed the initiative with open arms.

They have already learned a harsh lesson about the dire state of Russia's public finances: when taxes don't get collected, teachers don't get paid.

#### All for nought Hold on to your seats. Those

sticklers for detail at British bank Abbey National feel duty-bound to announce that director Tim ingram and his wife Christine have bought one share each in the company. That, they inform us, amounts in aggregate to 0.000000141 per cent of the ordinary share capital.

### Financial Times

#### 100 years ago Pluralist Directors

A brief calculation culled from the Red Book of Directors shows that 640 gentlemen in Britain hold 5,090 directorships between them. Whether the directorships are improved by the process or whether the process improves the gentleman is a matter of some doubt. But we may say without any doubt that it is a typical development of the fin de siècle industrial circus to drive a team of half a dozen or more directorships. The Red

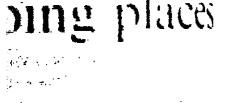
#### 50 years ago

20 directorships.

Book informs us that four

gentlemen each hold at least

Canada's Position Improves Edmonton, Jan 6. Canada's gold and U.S. dollar reserves have been doubled since the end of 1947 when dollarsaving measures were introduced. They now total approximately \$1,000m, Mr. Abbott, Minister of Finance, announced here. Current reserves consist of U.S. \$550m and the balance in gold. The Minister revealed that at December 31 holdings were officially \$998m compared with a low of \$461m in December 1947.



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THURSDAY JANUARY 7 1999



THE LEX COLUMN

### Drunk on liquidity

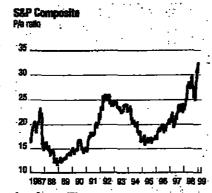
Happy January! The US stock market is back in record territory, with the Dow Jones index surpassing 9,500 for the first time. The UK, French and other European markets are also closing in on their all-time highs. Even Japan had a good day. As usual at this time of year, equity markets are surfing along on a wave of liquidity. Stocks are benefiting both from the traditional seasonal inflow of fresh money and a reduction in institutional cash piles that were built up during last autumn's downturn. In the US, for example, cash holdings of equity mutual funds have dropped from September's 6.3 per cent high to around 5 per cent, compared with a two-year average of 4-4.5 per cent.

But every bubble bursts eventually. Valuations are now so stretched - the trailing price-earnings ratio on the S&P 500 index has reached 38 times - that even bulls find them hard to justify. Tellingly, the S&P 500 has already exceeded the 1999 year-end forecasts of many US strategists. Earnings growth across most western markets is likely to be lacklustre as deflationary forces spread across the world economy. And the scope for further interest rate cuts in the IIS and continental Europe is limited, reducing the support furnished by lower bond yields.

Predicting the timing of any setback is difficult. But as the extra push from liquidity peters out and investors refocus on fundamentals, it is hard to see this New Year rally lasting much longer.

Japanese exporters must be feeling less than charitable towards Eisuke Sakakibara, Japan's vice minister for international affairs, whose latest comments have done nothing to damp the yen's surge against the dollar. Their anger would be misdirected. The currency's strength seems to owe more to the collapse of the bond market than the opinions of "Mr Yen".

The oversupply in the Japanese government bond (JGB) market - to fund the government's fiscal stimulus package has caused yields to triple to nearly 2 per cent, attracting funds from overseas. The finance ministry's decision to curtail its buying of JGBs has only exacerbated this. But the only speedy remedy - getting the Bank of Japan to monetise the govern-



ment debt by in effect printing money to buy bonds - carries huge dangers and would be politically difficult.

Meanwhile, two further pressures conspire to sustain the ven; the unwinding of so-called short ven carry trades, where investors borrowed in yen to buy overseas assets, and the need for Japanese exporters to hedge further against currency appreciation, thereby reducing capital outflows. Furthermore, dollar weakness, the flip side of the yen coin, does not look likely to change in the short term, given growing concern about the US trade deficit. Longer term, the poor fundamentals of the Japanese economy should weaken the yen, but not before Japanese exporters join the rest of Japan in hurting.

Volvo's decision to put its car division up for sale is a sensible recognition that independence, its strategy since the aborted merger with Renault, is no longer an option. One of the smallest European carmakers in terms of volume, Volvo's inability to exploit the economies of scale enjoyed by its competitors has finally taken its toll on the group's profitability and share price performance. For 1998, pre-tax profits are expected to be nearly 20 per cent down. Among its European peer group, Volvo has one of the lowest valuations on a price/earnings basis. While DaimlerChrysler trades at more than 12 times 2000 earnings per share. Volvo is on a humble 8 times.

Since Volvo is a premium brand, with

an appeal that is widening beyond the family segment thanks to sportier models competition to buy it should be fierce. Fiat is the most obvious fit, both geo graphically and in terms of products. However, structuring the deal as a merger of equals may prove difficult unless all of Volvo were to be included. Volvo as a whole is capitalised at \$12bn, compared with Flat's \$14.5bn, but the car division accounts for little more than 50 per cent of forecast 1999 operating profits. Putting that segment on a multiple of nine sug-gests a value of around \$6bn. But it would be a shame for Fiat not to strengthen its own Iveco trucks business at the same time. A full-scale merger looks the best

#### Gucci/LVMH

investors in Gucci are all too aware that the stock can go in and out of fashion. Its share price has oscillated between €30 (\$36) and nearly €70 over the past couple of years. But with first Prada and now LVMH taking stakes, it seems that what the Asian crisis has taken away bid speculation is giving back. Of course, LVMH may just sit on the 5 per cent stake, enjoying access to information about a fellow purveyor of luxury goods, and eventually profiting - as will the whole LVMH group - from a recovery in Asian consumer spending. The yen's recent strength has reassured investors that there is light at the end of that tunnel.

But what about a bid for Gucci? LVMH could afford it, unlike Prada. Its 11 per cent stake in Diageo is worth more than Gucci's current market value of 63.3hn. But deep pockets are not enough. A fash ion house's talents notoriously lie with individual egos. Either these are won over or they walk, taking the company's value

Apart from money, LVMH could offer Gucci's glitterati an important role in expanding the group's fashion interests. After a sometimes painful experience as a public company, they might welcome more committed owners

But LVMH, which is still trying to turn round its last big acquisition, the DFS duty free chain, would have to heware of offering too big a premium. After all, syn-ergies are hard to come by in brands that thrive on their distinctiveness

### Senators clash over format for impeachment hearing

Republicans seek to block plans for accelerated trial

yesterday sought to block plans for

President Bill Clinton. locked in debate over how to structure the trial, with Republicans and Democrats holding separate meetings to try to map out plans for the historic proceedings.

The trial is due to get under way

Trent Lott, Republican senate majority leader, said he was optimistic that agreement on a structure would be reached before the trial opened. However, he warned that the trial could last anywhere from three days to more than three

"I can't give you a magic date," he said. "All kinds of variables are com-

House spokesman expressed frustra-tion with the continued delays ter, a Pennsylvania senator, said: "I Right-wing Republican senators and said Mr Clinton was believe we can have a very narrowly

The president's lawyers are pre-As the new Congress formally paring a wide-ranging attack on the opened, US senators remained charges that Mr Clinton obstructed justice and committed perjury in covering up his affair with Monica Lewinsky, a White House worker, but their tactics will depend on the

format of the trial. Mr Lott's comments came as the

The "mini-trial" would test whether there was any chance of months. achieving the two-thirds majority in the Senate necessary to convict Mr Clinton, Although the plan is strongly backed by Democrats, a prominent senator from West Virgrowing number of Republicans have said it would be a violation of their constitutional responsibility if "I could go either way based on

Most Republicans appear to favour an alternative plan for a trial that Joe Lockhart, the White would last several weeks and

"anxious" to get the issue resolved. focused proceeding, limiting the number of issues, limiting the number of witnesses and conclude it within the parameter of three

Tom Daschle, senate minority leader, said he remeined optimistic that the two parties would reach consensus on a "sensible" plan to proceed. However, he warned that if the Republican majority approved a today when William Rehnquist, chief mood supeared to be turning against format involving witnesses, the justice of the supreme court, for- a bipartisan plan to hold a shortened White House should be given as long mally swears in the senators as trial lasting a few days.

> But in the first sign that Democrais might not be completely united behind Mr Clinton, Robert Byrd, a ginia, said he had not yet made up his mind about the case.

the evidence as I've seen or heard

### Former army chief joins race to be Israeli prime minister

Amnon Lipkin-Shahak, Israel's launched his campaign for the premiership with an attack on Benjamin Netanyahu, the prime minister, and an appeal for unity in Israeli

"Netanyahu is dangerous for Israel. Netanyahu must go," said Mr Shahak, who is expected to be a has soured in recent months, despite strong candidate in elections due on his silence about his political

Coalition and opposition leaders

He lashed out at Mr Netanyahu for
branded Mr Shahak, who is forming
fostering an "abyss of hate" between a centrist party, a political novice with no vision on regional peace or security. Mr Netanyahu, of the comments as a "crude personal

attack" bordering on incitement. "He is a wonderful man, but has nothing new to say about anything," opposition Labour party, said of Mr but said this would have to be Shahak Labour supporters are wor- agreed in negotiations on a final

ried his candidacy could split the opposition to Mr Netanyahu.

former army chief of staff, yesterday two weeks ago, played a leading role east Jerusalem, which Palestinians in negotiating the Oslo peace accords between Israel and the Palestine Liberation Organisation. But his involvement attracted criticism from Mr Netanyahu, who was leader of the opposition at the time.

The former general's popularity

He lashed out at Mr Netanyahu for religious and secular Jews and the political left and right during his tenure. The Labour party, he said, Likud party, described Mr Shahak's had not done enough to bridge gaps. "A country at war with itself is

> Mr Shahak hinted that a Palestinian state would

that Israel would keep Jerusalem as Mr Shahak, who left the army only its united capital, including Arab hope will become capital of a future

> Mr Shahak rejected a unilateral withdrawal from Israeli-occupied southern Lebanon, and said Israel must negotiate a pullback with Syria. However, he strayed from traditional Israeli policy by saying peace with Syria would require territorial compromise on the occupied Golan Heights.

According to a recent Gallup poll, Mr Shahak would receive 17 per cent of the vote in the first round of elections, behind Mr Netanyahu, with 31 per cent, and Khud Barak, Labour leader, with 34 per cent. If Mr Shahable to bring disaster if it is not hak overtakes Mr Barak in the first stopped in time," he said.

hak overtakes Mr Barak in the first round and advances to a run-off on June 1, the polls-indicate he would

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library of over 3.5 million articles from the FT and

Objeine: how to get share prises and mark

#### **PolyGram**

#### PolyGram N.V.

has been acquired by



The Seagram Company Ltd.

The undersigned acted as a financial advisor to PolyGram N.V. in this transaction.

**SG Cower** 

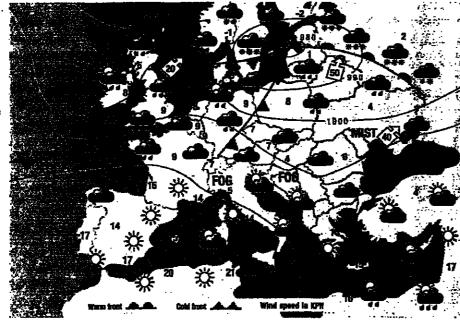
#### FT WEATHER GUIDE

#### Europe today

Greece, southern France, the Alps and the Belkans will be mainly fine and mild with surmy spells and there will be fog in northern italy, Alpine valleys and the Balkans. Northern France, the Low Countries and Germany will be mild with rain. Scandinavia and north-east

Five-day forecast Much of central, north and northwest Europe will turn much colder later tomorrow and more particularly over the weekend with snow and severe frost becoming more videspread. Colder air will also

Europe will be cold and wintry. penetrate the western Mediterenean during the weekend but at the same time a developing depression will bring heavy rain to parts of western Spain and Italy.



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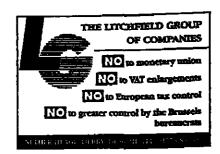
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### NES & MARKETS

THURSDAY JANUARY 7 1999



Gucci up

as LVMH

holding is

revealed

and Samer Iskandar in Paris

Shares in Gucci, the Italian

fashion group, jumped by 19 per cent to €55.4 (\$65) yester-

day when LVMH, the French

luxury goods conglomerate,

announced that it had

acquired more than 5 per cent

of the company.

Domenico de Sole, Gucci's

president, admitted that he had "no prior knowledge" of the investment LVMH, which

INSIDE

Storebrand in NKr1.6bn bid for bank Storebrand, Norway's leading insurer, launched a NKr1.6bn (\$215m) takeover bid for Finansbanken, Norway's second largest private bank, in what is the latest consolidation of the Nordic financial sector. It already owned 10 per cent of Finansbanken's shares. Page 14

LucasVarity in talks on expansion LucasVarity, the automotive group, is in discussions with a number of companies over plans to expand through a series of small-scale acquisitions, joint ventures and alliances, rather than a hill-blown merger or sale of the group. Page 18

**Sapanese stocks hit by bond yields** Japanese stocks are being pounded by high government bond yields, and negative corporate growth prospects. The rise in the yield on bonds has made equities less attractive relative to bonds. Capital Markets, Page 22



Last year the Russian stock market fell from being 1997's top performer to last position. The slump was powered by a combination of global and Russian factors, as the government of Boris Yeltsin (left) sacked prime min-isters, defaulted on its debt and devalued the rouble. So far, only the

bolder traders and hedge funds have returned o a market hit by low volumes and high volati-by. Emerging Market Focus, Page 34

Kenya sees rise in demand for its tea Kenya's tea sector has experienced strong demand from Egypt, Pakistan and the UK pushing prices up by 5 cents to 20 US cents a kilo from December after a year when production exceeded expectations and heavy rains helped the country's estates. Commodities, Page 24

**Body Shop names finance director** Alastair Murray has been named the new finance director of Body Shop International, the cosmetics and tolletries retailer. Page 19

**Outlook improves for Pakistan wheat** The outlook for Pakistan's wheat crop has improved with the arrival of widespread rains after a two-month dry spell. The agriculture ministry has set a production target of 19m tonnes this year versus last year's production of 18.7m tonnes. Commodities, Page 24

Banks report smooth euro trading rading began smoothly this week in the new European currency, as most banks found probflems could be deaft with easily by hand. Months of co-operation between banks that were usually rivals had paid off. Business and the euro, Page 21; Observer, Page 11

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### Kirch claims assets over \$12bn

By John Gapper in London and Frederick Studemann in Bonn

Troubled German media group tries to soothe backers

Kirch Group, the troubled German media group seeking a cash injection, has told potential investors that its assets are worth more than DM20bn, (\$12bn) and it has lower debt than has been estimated.

Kirch, which has been losing money because of difficulties with its DF1 pay television service, has scaled back the cash it is seeking from three investors – including the Italian media company Mediaset - to about \$250m each.

It has told Mediaset and the other two investors, Rupert Murdoch's News Corporation and Prince Al Waleed, the Saudi investor, that its net

Disney is

breaching

Walt Disney is bracing itself

for a great leap forward into

China and a strategic shift

backwards in its traditional

role as a provider of whole-

But in the short term,

according to Michael Eisner,

chairman and chief executive,

investors may expect few

financial fireworks from the

company as it starts the new

While other executives

might feel obliged to talk in

expansive terms about the mil-

lennium, "I think the year 2000

will offer a quiet moment to

Mr Eisner said in his annual

letter to shareholders, pub-

The company, which had a

\$1.85bn, had invested heavily

in new attractions which had

could be in the pipeline. "We

could be getting close to the time for a major Disney attraction in the world's most popu

lous nation," he said, in his first public acknowledgement of his meetings in October with the Chinese leadership in

His statement confirmed renewed optimism within the company that the relationship

on the mend and that plans to

build a theme park and release

more products in China are

Mr Eisner also outlined

lished yesterday.

reflect on ... our company,'

some family entertainment.

close to

**Chinese** 

barrier

By Christopher Parkes

in Los Angeles

debt is DM2.8bn. It estimates unveiled a restructuring that its market value, which would the market value of its equity at more than DM20bn. The confidential figures

given by Kirch to investors last week provide the first indication of the value it may seek in a forthcoming flotation rate Pay TV division. of its television and film assets, likely to take place within 18 months. Kirch has also held separate

discussions with financial investors, thought to include the private equity firm Hicks. Muse, Tate & Furst, over possible investment. Neither Hicks Muse nor Kirch would comment vesterday.

Exporters hurt

by sharp rise

against dollar

By Paul Abrahams and Alexandra Harney in Tokyo

currency.

The yen might have fallen

among the country's manufac-

week, before closing last night

in Tokyo at Y112.41. In August.

the dollar was trading at Y147.

value of overseas earnings,

makes Japanese goods more

basic currency's value to drop

or rise 20 per cent in just one

The sudden rise in the yen

placed its free television give them a stake of only 3 per assets, including a 59 per cent cent each in Kirch Media for stake in Sat 1, in a new divi- \$250m. sion called Kirch-Media. Its In a private presentation in

However, it has told investors that the Pay TV division may owe up to DML 7bn to the Kirch Media arm in which they would invest. The investors want assurances over how and when this money would be paid to Kirch Media.

Talks are continuing, but investors are scentical about the estimate of debt. They also

troubled pay television Milan, Kirch estimated the operations will sit in a sepa-market value of Kirch Media at DM14bn and that of Pay TV at DM4bn. The third arm, Taurus, holds other assets including its DM2bn stake in the publisher Axel Springer.

Kirch yesterday emphasised its faith in its free television assets, saying that advertising sales at Sat 1 rose by 14 per cent in 1998 to almost DM3bn. making it the second biggest of Germany's commercial networks. It forecast profits at Sat

I of at least DM10m this year, following restructuring and a write-off of debt. Dieter Hahn. Kirch's managing director. said free television assets were now "healthy to the core and highly profitable".

There has been constant speculation in Germany about the level of Kirch's debt. A 1997 report by Manager Magazine put the group's debts at more than DM3bn and claimed it had negative cashflow of about DM1bn that year.

Kirch has told investors that if the market value of Kirch Media is below its estimates in a flotation they would be allocated extra shares or another form of compensation.

rate, made last November.

over, said it was adopting a fluctuation in the yen-dollar

The group, which calculates

Citizen, with exports repre-

Y500m and Y600m, if ven-based

The market has already been

#### controls the Louis Vuitton, Christian Dior and Givenchy fashion brands, said it would Strong yen hits home in Japan make its "intentions known before the end of the week."

LVMH's shares rose by 7 per cent after the announcement to €200. Analysts said Bernard Arnault, LVMH's acquisitive chairman, might mount a full bid for Gucci, which could cost

up to \$4bn. However, they thought it more likely he would retain a minority holding as an investment. LVMH set up a venture capital fund last month, but declined to comment on whether it was used to acquire

the Gucci shares. The secretive nature of LVMH's share buying mirrors a similar episode last summer when Prada, a rival Italian fashion house, shocked Gucci by revealing that it had acquired a 5 per cent stake, and then purchased another 4.5 per cent.

Prada, which spent about 240m in total, claimed to have bought the holding as an investment. At one stage it nursed a loss because Gucci's shares had been depressed by the Asian downturn. Analysts suggested that Mr Arnault had timed his investment in anticipation of an upturn.

LVMH is believed to have bought a small stake in Gucci when the latter went public in 1995, as part of its policy of investing in rival companies to secure access to shareholder information. It is understood to have similar holdings in Raiph Lauren and Donna Karan, the US fashion groups. Market traders suspect that LVMH bought most of its cur-December, when a large tranche was purchased anonymously. LVMH did not have to disclose its stake until it owned more than 5 per cent of

Lex. Page 12

**Volatile times** Against the dollar (V per S) back marginally yesterday, but there is no disguising the pain 116 **f** turers from the recent sharp appreciation in the Japanese Since December, the dollar has fallen from Y123 to a 27month low of Y110.40 this It is intolerable for the basic currency's value hits Japanese companies in to drop or rise 20 per cent in just one week. two ways. It affects the yen A stable exchange market is essential for cutting into profits and it manufacturing industry' - Noburuki Idei, president of Sony expensive overseas, forcing manufacturers to cut prices or

Nobuyuki Idei, president of for the current financial year. least Y115." Bridgestone, the ing watch manufacturer, a Yomiuri newspaper: "Japanese Brian Rose, economist at Wardisappointing 1998 with net exchange rate has fluctuated and a narrowing yield spread income down from \$1.97hm to wildly. It is intolerable for the between Japanese and US government bonds. Y105 is not beyond the realms of possibilhelped drag down earnings, he | week. A stable exchange mar-

said. More heavy spending ket is essential for manufac-Jananese companies have tricky. "One of the problems is been here before and have the extent to which companies seen the yen even stronger. In have hedged," says Garry April 1995, the dollar briefly Evans, strategist at HSBC touched Y80. The difference Securities. "Although they this time is that the domestic give their assumptions for the economy, and the corporate currency, they don't disclose sector in particular, is in much hedging in advance. What's worse shape because of the clear though is that a lot of cumulative effect of years of groups have been over-optimis slow economic growth and tic, working around Y130." recession, as well as the col-

apse of Asian demand. What appears to have infuritendo, the games group, ated Japanese managers the warned it was unlikely to post most is not the absolute level of the currency, but the extraordinary volatility of the yen in recent months.

yesterday were struggling to stays at the current level. We

Sony, the electronics group, Most presume the yen is going world's leading tyre manufac- movement to Y100 against the said in an interview with the to continue to appreciate. turer, said it was troubled at dollar would mean pre-tax the strengthening of the yen, profits could be nearly 10 per manufacturing industry is burg Dillon Read, says: "With which would hit the strong cent below the company's fore-exhausted because the yen's a big current account surplus earnings growth of the past cast based on a Y115 exchange several years. The company, which depends on exports for more senting more than 70 per cent than 40 per cent of total turn- of total turnover, said a Y1

> But evaluating the damage wait-and-see attitude towards rate would mean a change in that every Y1 fluctuation in transactions were included. the exchange rate has a Y1.7bn impact on sales, is likely to discounting lower profits suffer from reduced export vol- among blue-chip exporters. umes and lower earnings from Many are at their weakest its overseas production levels in months.

Some companies have already issued warnings. Nina parent company profit with the yen at current levels. Masayoshi Morimoto, a Sony vice-president, says: "It's going Equity analysts in Tokyo to be a severe year if the dollar update their earnings forecasts hope the rate will return to at

### Vodafone to talk to AirTouch

between Disney and China, Lowis in New York and Alan Cane frozen after the 1996 release of the pro-Tibet film *Kundun*, is in London

> Senior executives from Vodafone and AirTouch may meet for the first time as early wireless carrier's \$55bn (£33bn) merger proposal, a sign of the seriousness with which the US company is treating the unsoli-

suggestions that it might sell

part or all of AirTouch's US

operations after a merger.

Vodafone's offer was prompted

Touch's valuable European

domestic business.

plans to shift the focus of the group's film business after a disappointing 1998, when "in too many instances profits did not materialise from the revecited offer despite its plans for nues achieved by our a rival merger. Vodafone's offer, made over films . . . either the films and marketing cost too much or the weekend, arrived as Airthe audiences rejected our nerger with Bell Atlantic. Vodafone has brushed off

Disney's costly Armageddon was the most popular film in US cinemas last summer but analysts believe the remake of The Parent Trap was more profitable. Efforts at serious movie-making, such as The Horse Whisperer and Beloved, were well-received by the critics, but less so by audiences. The company planned to

respond by making more movies under the Walt Disney brand with "renewed emphasis on Disney family films". Analysts note that ranging

wider into big-budget event films has brought mixed results for the company, while competitors such as Dream-Works are threatening to erode Disney's mastery of the anima-

chief executive of Vodafone. and Sam Ginn, chief executive of AirTouch, meet, other exec-utives are scheduled to begin talking this week. The discussions are likely to

focus on the value of Vodaas today to discuss the UK fone's shares, which are the main currency for its offer. The company is thought to have offered approximately \$90 a share in stock and \$4-\$6 in cash. The deal is being structured as a merger of equals. but the cash element would ensure that Vodafone share Touch was negotiating a \$45bn holders retain marginally more than 50 per cent.

Bell Atlantic is likely to question the value of Vodafone's stock. People close to AirTouch were thought to be sceptical about Vodafone's by its desire to control Air- high-flying shares, which trade on a far higher multiple of investments, rather than its cashflow than its stock.

But the stock market reaclarger but slower-growing tion to Vodafone's offer may The UK carrier insisted that have calmed some nerves. On it was determined to keep Air- Tuesday. Vodafone's stock Touch's US business, but price rose 61%p to £11.10% added that it was unlikely to before slipping back slightly use it as a platform to create a yesterday. By lunchtime on national network of its own. Wall Street, AirTouch's shares Investment bankers in New stood at \$79%, a rise on the day York said that any attempt by of 34% and putting them com-Vodafone to sell the US busifortably ahead of the \$75 a share value of Bell Atlantic's ness would attract a large tax all-stock offer.

While it is expected to be some days before Chris Gent, Soing places, Page 10 For Citizen, the world's lead- Lex. Page 12 LVMH eyes Gucci, Page 14 Chopard GENEVE depuis 1860 L.U.C empresautatres, plene triplant J.S. Benesa Lal on 0171, Manifest or fire 0171, 440, 6360.

### Hyundai buys LG Group's chip

South Korea's LG Group had only recently scorned a tion of the 70:30 split with yesterday agreed to transfer consultant's report which HEL The freeze should be with LG over what to do non-chip divisions or an its semiconductor unit to recommended that HEI take : lifted today. rival Hyundai Group, in a a 70 per cent stake. with the government.

equity to Hyundai Electronproducer of dynamic random access memory (D-Ram) jung to drop his objections chips in terms of market as a gesture to spur corposhare, behind Samsung Elec-rate restructuring. tronics, also of Korea.

launches

bid for

By Valeria Sköld in Oslo

Storebrand, Norway's

leading insurer, yesterday

launched a NKrl.6bn (\$215m)

takeover bid for Finansban-

ken. Norway's second largest

consolidation of the Nordic

10 per cent of Finanshanken

shares, will offer NKr40 a

financial sector.

bank

observers, as the company existing loans after its reject struck late in 1997.

damaging 10-day stand-off and unfair and threatened to wave of much-needed corpo-LG Semicon will sell all its sulting firm Arthur D. Little. said it called into question at dicted LG's project would be The about-face came after ics Industries (HEI), creating Koo Bon-moo, LG chairman, the world's second-biggest agreed in a meeting yesterday with President Kim Dae-

Government-controlled The speed of LG's decision banks froze new credit to LG

But while LG's capitulasurprise move that ended a LG called the report blased tion may usher in a new similar types of chips: least one of the two large jettisoned. The factory in investments the companies have in the UK.

> early to decide the future of 6,000 jobs. LG's £1.7bn (\$2.8bn) chip

He said talks were planned

with the facilities, which were intended to produce tor - in anticipation of Chun Woo Jong, a chip sue its authors, the US con- rate restructuring, analysts analyst with Securities, pre-

Wales will not be built," he said. "Job losses will be Kim Young Hwan, HEI anticipated." The two-phase president, said it was too project was to have created

plant in south Wales and pay a premium for LG Semi-HEI's \$5hn project in Scot-con's share price. Analysts

offered a sweetener - perhaps one or more of HEI's cerned about the combined existing mobile phone operareforms to the telecommunications industry.

Mr Kim predicted the combined company would become the world's leading chip producer, enhancing its research and development to focus on next-generation high-speed chips.

'We mean business," he LG said HEI had agreed to said. "We are getting a very become truly the number

merged company surprised were threatening to call in after the economic crisis suggested LG had been world." He said greditor banks should not be connearly \$10ba.

Analysts said LG's agreement was expected, as it is very difficult for achusiness to survive in Korea if at odds with the government. But they expressed doubts over the compatibility of the merged companies.

"In the short-term, there are no synergies," said Mr Chun at Dongwong. But he added there would be subprecious opportunity to stantial cost-savings on research and development

### land. Both were put on hold said the speed of the deal Storebrand Wolf in cashmere clothes eyes Gucci

By Alice Rawsthorn NKr1.6bn

> national holiday in Italy. Arnault did vesterdav.

Mr Arnault has yet to share in cash for 34.7m outstanding Finansbanken shares and 4.4m shares Gucci. Analysts suspect that don. related to a convertible

The deal is contingent on a precursor to a bid; but they Storebrand receiving 90 per also interpret LVMH's intercent shareholder approval, which it hopes will come two weeks after an extraordinary shareholders' meeting schednled for this month. Last month. Den Danske Bank, Denmark's largest,

outbid Svenska Handelsbanken, Sweden's largest bank, in a NKr5.8bn takeover of Norway's Fokus Bank. The deal is still subject to Media group has had go the extra mile, write John Gapper and Frederick Studemann approval by the authorities. Storebrand's hoard must approve an increase of up to

10 per cent in share capital to help finance the deal. It has so far received more than 50 per cent acceptance from Finansbanken share-

Storebrand's bid, repremium to Tuesday's closing has an enterprise value of price, sent Finansbanken shares surging 27 per cent to | \$12.9bn) including net debt NKr39.50, while Storebrand of DM2.8bn, raises many closed NKr0.50 lower at

Analysts described the bid | tured, why does it want outprice as sufficient, but questioned the possible synergies of the merger.

Age Korsvold, Storebrand chief executive, said the deal would benefit from the addition of Finansbanken's NKri3hn in high net worth banking assets, representing double the asset size of Storebrand Bank, Storebrand's retailing banking

However he said that the takeover would not materially change Storebrand's rank among Nordic financial institutions, as Finansbanper cent of Storebrand's NKr17bn in market capital.

Storebrand expects to receive government approval for its two banking concessions after the summer. The company is seeking two separate concessions to operate Finansbanken as a separate bank under the Storebrand group while maintaining finansbanken's name, man-

agement and employees. Alternatively, Storebrand could seek one banking concession and integrate it into Storebrand Bank if a proposed new law by the banking commission does not get approval this year.

not exclude the possibility of a competing bld. Sundal Collier, a Norwegian stock broker, advised Storebrand on the deal.

Mr Korsvold said he would

It takes a very Machiavellian industrialist to announce they have stealthily been buying shares in an Italian rival on Epiphany, a But that is what Bernard

LVMH, the French luxury goods group chaired by Mr Arnault, dubbed the "wolf in cashmere clothing" because of his predatory business style, disclosed that it now private bank, in the latest owns slightly more than 5 per cent of Gucci, the Italian fashion company which com-Storebrand, which owns | petes directly against its Louis Vuitton and Christian Dior brands.

> state his intentions towards he sees the stake as a financial investment, rather than est as a sign that the \$35bn luxury goods market may be rallying after two gruelling

/ irch Group's valuation

entice outsiders who

include Rupert Murdoch into

investing \$250m each, pro-

vides an unprecedented

glimpse into a secretive

But the ailing television

about DM23bn (€11.8bn,

questions. The most obvious

side help?

is: if Kirch is so solidly struc-

"If they really have net

debt of only DM2.8bn, then

why are the banks not fall-

ing over themselves to lend

them the money?" asks one

person familiar with the

long talks between Kirch

There are other questions

as well. These include

whether money injected by

News Corporation, Mediaset.

the Italian television group.

and Prince Al-Waleed of

Saudi Arabia, will be swal-

The saga of the talks between the investors and

Leo Kirch. 72-year-old head

of the privately-held group

that is one of the leading

German television compa-

last year when Mr Kirch was

seeking help.

nies, began in the middle of

The problematic launch of

DF1, his pay television ser-

vice in Germany, had cre-

ated cash flow problems. The

group had signed expensive

contracts with all but one of

the big Hollywood studios

Mr Kirch's attempt to

solve the problem by merg-

ing DFI into the rival Premi-

ere service controlled by

CLT-Ufa, a subsidiary of

sion on the grounds that it

At this point, Mr Kirch

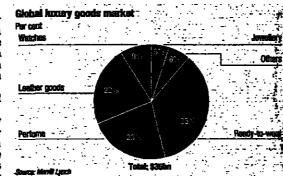
would stifle competition.

and was losing money.

lowed up by pay-TV losses.

and potential investors.

of its assets, produced to



"Arnault understands the luxury business extremely well, and perceives Gucci as on Gucci loafers and Hermès a company with growth potential," says Cedric Mag- as frequently and buying so nelia, an analyst with Credit Suisse First Boston in Lon-

industry is breathing a sigh south-east Asla.
of relief because of the yen's Luxury sal firmness against the dollar." It was the yen's softness that heralded the start of the luxury industry's difficulties two years ago.

• Sat.1 (59%)...

nico (25%) -

ion rights to World Cap -

Proposed restructuring deal

- Library of 12,000 feature films .

would be able to crystallise

the value of these holdings

Mr Kirch's proposals ini-

tion and Prince Waleed balk

at the opacity of the com-

pany, but Silvio Berlusconi, the Italian media magnate

who controls Mediaset, also

Before Christmas, Mr

Kirch returned with revised

split his company into three

Bertelsmann, was blocked divisions, which would sepa-by the European Commis-rate his free TV interests with those of Kirch in a ven-

and valuable film library

Mr Kirch also reduced the

approached the investors proposed investment to get some compensation in person involved.

from the loss-making DF1.

disliked pay-TV.

by the European Commis- rate his free TV interests

floated this year or next.

Madieset (1.3%)

Kirch woos investors with new deal

The Japanese tourists, who had once spent so freely many duty-free souvenirs. Trading conditions have

since deteriorated not only "But he also knows the in Japan, but throughout Luxury sales remained robust in North America and western Europe. However, the downturn in Asia (which previ-

seeking an injection of \$250m each. At a meeting in this way for investing in

terms, suggesting the inves-

tors would gain 3 per cent

Kirch has told the three

pay-TV arms together within

an 18-month period. They

could get cash and shares

to compensate if the flota-

tion value is lower than

Mr Berlusconi's reaction

has been to demand more.

Media, Mediaset wants to

ture called European Televi-

sion Network.

return for cash.

\$500m each into his Taurus Milan on new year's eve, holding company. They Kirch Group set out revised

when Kirch Group was stakes in Kirch Media in

tially met with scepticism. investors that it wants to

Not only did News Corpora- float the Kirch Media and

sales, according to Comité Colbert, the French industry body) has destabilised the market and tightened the financial pressure on many

The chief casualties have, inevitably, been weaker est growth in third-quarter brands which were already losing momentum.

Isaac Mizrahi and Todd Oldham, two former US design stars, closed their fashion houses this autumn. less badly affected, partly cause of the strength of the North American and western European markets, scarves, stopped travelling and partly because of the lessons learned by their management during the deeper

recession in the early 1990s. The most vulnerable businesses have been ones which, like Gucci and Prada. had been most successful at selling profitable accessories. such as bags and wallets, to Asian tourists.

However, they reacted

Kirch Media, the logic is less

obvious to the other inves-

tors. They would have to

believe that an equity stake

One problem is that they

would only gain a 8 per cent

stake each. One person

familiar with the talks says

the other investors will need

far better safeguards - and higher stakes - to take part.

Another difficulty is that

Kirch Pay TV could end up

owing Kirch Media up to

DML7bn for use of material

such as films in its library.

Having gained better

terms by waiting, there is

"If the banks don't come up

with the cash, Kirch will

little to gain by a quick deal.

in Kirch Media was worth-

while in itself.

42 per cent of global luxury rentals across Asia, cutting promotional expenditure and slowing down store openings

there. Thanks to these tactics and the timely acquisition of its watch manufacturer. Gucci recently reported mod-

net profits. If the yen remains firm against the dollar and the Japanese economy fulfils the government's hopes by picking up in the middle of this Other brands have been year, the luxury market could recover and Gucci would be well positioned to

benefit from the upturn. Mr Arnault could then be congratulated on having made a prescient investment: unlike Patrizio Bertelli, Prada's chairman who spent \$240m on 9.5 per cent of Gucci this summer,

He must now be hoping that, whether or not LVMH bids for Gucci, its interest will, at least, enable Prada to ously accounted for roughly swiftly by renegotiating exit - with a profit.

only to see the shares

#### **US** banks dominate European M&A.

US investment banks topped the European takeover according to preliminary figures released yesterday.

The league tables compiled by IFR Securities Data, the

US company, confirms the increasing dominance of USowned banks in European mergers and acquisitions. IIS banks have beaten their European counterparts on global deals for some time, but their success in Europe last vear is unusual.

Morgan Stanley Dean Witter, the US bank, advised more European companies involved in completed merg ers or accruisitions in 1998 Morgan, which bought Dean Witter, the US retail bank in 1997, gained a 33 per cent market share in Europe by advising on 78 deals worth a total of \$166bn.

Its biggest deal was the merger between British Petroleum, the UK oil group, and Amoco of the US. Michael Zaoui, co-head of

European mergers and acquisitions at Morgan Stanley, said yesterday: "Leadership of US investment banks is well established in Europe."

Morgan came in fifth place in the same survey last year, which was topped by Warburg Dillon Read, the Swissowned investment bank which came third in 1998. Warburg advised on 128 European deals overall last year, the greatest number of such deals. Unusually, second place also went to a US firm in 1998. Goldman Sachs advised on 65 European deals worth \$126bn in 1998. More than 6,000 deals were completed in Europe last year worth \$498bn.

#### ENERGY

### Total seeks shareholder support ahead of vote

**NEWS DIGEST** 

Shares in Total, the French oil company bidding for Belgium's PetroFina, yesterday rose 1.6 per cent to 691, after Thierry Desmarest, chairman, said the deal would have a favourable impact on the combined group's earnings. The link-up with PetroFina is fundamentally good for the group and for its shareholders," he said, in what was widely interpreted as an attempt to gather support a week before shareholders are scheduled to vote on the planned merger. He said net earnings per share would rise by between 10 per cent and 15 per cent over three years.

Total shares have fallen by more than 16 per cent since the deal was announced last month, while the CAC 40 index of blue-chip French stocks rose almost 10 per cent, on fears that the acquisition price - at a 37 per cent premium over PetroFina's share price - was too high.
Total executives have been lobbying to convince inves tors of the ments of the transaction. In recent weeks, Mr.

Desmarest and other senior executives have travelled to the US to hold talks with analysts and investment managers. An estimated 50 per cent of Total's shares is held in the US.

The company said vesterday net profits would fall by roughly 10 per cent in 1998, to FFr6.8bn-FFr6.9bn (€1.04bn-€1.05bn, \$1.22bn-\$1.24bn), mainly owing to low oil prices, which averaged \$12.7 a barrel, compared with \$19.1 in 1997. Samer Iskandar, Paris

#### **CARMAKERS**

#### Skoda output at record

Skoda Auto, the Czech subsidiary of Volkswagen of Germany, increased its production by 12.8 per cent in 1998 to a record 403,310 from 357,405 a year earlier. Skoda, which is owned 70 per cent by Volkswagen and 30 per cent by the Czech government, is aiming to raise output to more than 500,000 by 2001/2002 supported by the launch of key new products. It is the biggest car producer in cervitral Europe. A third range of larger Skoda cars, aimed at taking the company further upmarket, is under development for launch in 2001/2002.

Planned capital investment is being raised to DM3.4bn (€1.74bn, \$2bn) in the five years from 1999 to 2003 from the DM2.4bn invested in the years from 1991 to 1998. The investment programme includes ambitious plans for a DM1bn plant with a capacity to produce 500,000 engines and 500,000 gearboxes a year at Skoda's main Młada Boleslav site. Construction of the plant is planned to begin later this year.

Last year output of the Octavia large family car. launched in 1996, was virtually doubled to 117,529 from 60,690 in 1997 helped by the addition of an estate car version. Production of its best-selling Felicia small car fell by 3.7 per cent to 285,781 from 296,715 in 1997. A new generation Felicia, based on a common chassis platform with the VW Polo is expected to be introduced in late 1999.

#### Ford takes electric car stake

Ford of the US yesterday said it had bought 51 per cent of the shares in Norwegian electric car maker PIVCO Industries for an undisclosed each amount. The acquisition would help Ford develop small, affordable electric vehicles. Ford said. As part of the deal, Ford will assist PIVCO Industries in the marketing and distribution of TH!NK, an electronic vehicle launched last year in Finland, Denmark, Norway and Sweden. It plans to introduce a fur-ther developed version of THINK in North America by

PIVCO, which formed a new company shortly after filing automotive alliance to provide capital and a global marketing network. Valeria Sköld, Oslo

#### Valeo sales rise 16%

Sales rose sharply last year for the fifth consecutive year at Valéo, the French automotive components group, to FFr39.5bn (66.02bn \$7.1bn), 16.2 per cent higher than in

The company's shares closed 1.36 per cent higher at 663 yesterday, before the announcement.

Valéo said its turnover had grown at an average annual rate of 19 per cent over the past five years. Second half sales included the electrical systems activities acquired in June from ITT Industries for FFr10.2bn. Full year sales would be equivalent to FFr47.6bn after consolidating the acquisition. Samer Iskandar, Paris

#### HEALTHCARE

#### Ciba Vision sees sales surge

Sales of Ciba Vision, the smallest of Novartis's three healthcare divisions, are poised to accelerate sharply following the successful testing of a new treatment which helps prevent the most frequent cause of blindness among old people. Ciba Vision and QLT PhotoTherapeutics, a small Vancouver-based biotech company, have released early details of a pivotal Phase 111 study of Visudyne (ver teporfin). It shows that the therapy preserves vision in a significant number of patients with the "wet" form of ageated macular degeneration (AMD), the leading cause of blindness among people over the age of 50.

An initial 12-month analysis of the 24-month trials show that Visudyne can preserve, but not restore, vision in a significant number of cases. Dr Nell Bressler, professor of ophthalmology at John Hopkins University school of medicine, has described the treatment as a "significant breakthrough".

As a result of the early trials, QLT and Ciba Vision expect to file for regulatory approval of Visudyne later this year and hope to be marketing the product in early 2000. Ciba Vision has paid 60 per cent of the development costs and QLT 40 per cent. Ciba Vision will market it worldwide and the two companies will split the profits on a 50:50 basis. William Hall, Zurich

Comments and press releases about international companies coverage can be sent by e-mail to International.companies@ft.com

### Carrefour

#### SALES, TAXES INCLUDED AS OF DECEMBER 31, 1998 December 98 Group sales: 6.3 3 597 31 179 • in FF multion 17 567 2 041

13 389 115 231 on FF m∰en In december, Correlour opened 6 stores: the 11th, 12th, 13th and 14th stores in China (Dongguan 9 500 m², Shanghai Pudong Jinqiao, 11 000 m², Shanghai Gubel, 11 500 m² and Beizhan, 8 500 m²), the 6th store in Korea (Ulsan, 10 100 m²) and the 21th store in Toiwan (Hua Lien, 9 000 m²).

The Group operated 351 stores by end 1998.

#### United Kingdom

While Mr Berlusconi could have to negotiate," says one

U.S.\$2,000,000,000

Floating Rate Notes Due 2001

In accordance with the provisions of the Notes, notice is hereby given that, for the Interest Period commencing on (and including) 7th January 1999 to (but excluding) 7th April 1999, the Rate of Interest applicable to the Notes will be 4.81125 per cent. per annum. The interest Payment Date for Coupon No.10 will be 7th April 1999, and the Interest Amounts will be US\$12.03 on Notes of USS1,000 in principal amount, US\$120.28 on Notes of US\$10,000 in principal amount, US\$1202.81 on Notes of US\$100,000 in principal amount and US\$12028.13 on Notes of US\$1,000,000 in principal amount.

Bank of England

Agent Bank

### Baan shares rise by 9.5% after \$75m cash injection

By Gordon Cramb in Amsterdam

Shares in Baan Company, the Dutch maker of business software, jumped 9.5 per cent yesterday as it armounced it had received a \$75m cash injection from a US investor

Baan will be able to offset the funds against a \$110m taken before tax in the quarter just ended.

one in five staff after a slide into loss as customers

delayed orders. Fletcher company is also listed on the International, a private fund US Nasdaq market, where affiliated to the New York- Fletcher has made a number based Fletcher Asset Management, has provided the the technology sector. sum in exchange for shares in Baan.

The company is to provide restructuring charge being for no more than \$16 per sbare.

Baan shares, which had exercised at the maximum

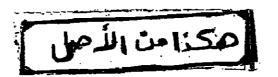
to elaborate on the accord, which allows Baan in Octob these from August, with ber to ask for a further \$75m, their number based on and gives Fletcher the future price movements but option to take its total investment to \$225m. If the initial tranche is

of smaller investments in

A Fletcher official refused

 $\frac{1}{2\pi}\log \frac{1}{2\pi}$ 

The company is shedding plunged last year, closed in price, it would provide a Amsterdam last night at stake of some 2.5 per cant in €10.40, up 90 euro cents. The Baan,



繊維が

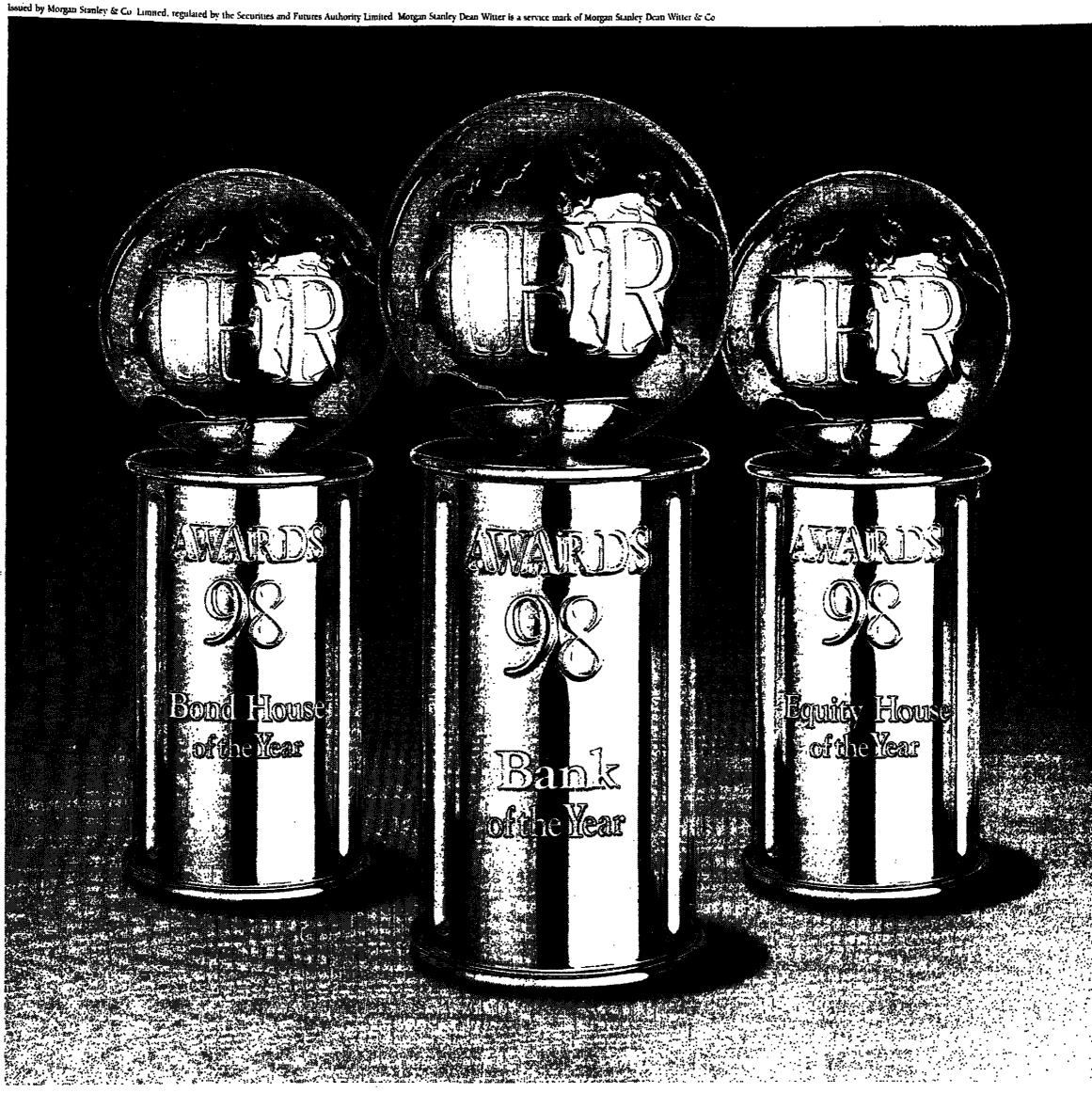
oda outsit at record

den schen use 16%

sales suc

tal seeks shareholde

pport ahead of vote



### Thanks to a world of great clients.

Being named Bank of the Year as well as Bond House of the Year and Equity House of the Year by International Financing Review is an honour that goes straight to our hearts.

Not our heads.

And it gives us an opportunity to thank all our clients for allowing us to help them achieve their goals - from building companies to building whole economies.

At a time of market volatility and global change, their choice of us is

a ringing endorsement of our belief that people make the best investment.

For we have built not only an extraordinary global network of offices and services, but a cadre of professionals who know how to bring out the best in themselves and one another.

They are people who rest on no laurels, but build on them. And whose approach to the most difficult and complex situation is positive.

Anything is possible.

We look forward to helping our clients achieve even more in 1999.

### MORGAN STANLEY DEAN WITTER

Milan

aimed at Siam Commercial

have been relatively unsuc-

cessful in recapitalising and

were slow to exploit a stock

market upturn - as did BBL

and TFB - for funds a year

Foreign investors remain

Year to Merch 1998 (%")

have any plans to divest

businesses in the next 24 to

If he has his way, Wipro

would be a software-led ser-

vices conglomerate, in which

non-software businesses

would provide about one-

"The services market is a

faster-growing market than

the product market glob-

ally," he says. "If you do it

successfully it has higher

For example, the computer

hardware business will focus

on after-sales service. It is

very profitable, he says.

After-sales activities already

account for 16 per cent of

hardware revenues and are

growing at 35 per cent plus a

year. The power cylinder

· business, which Mr Premji

any future infrastructure

spending boom, is growing

quarter of sales turnover.

36 months."

### Banks apply for Tier 2 capital help

Thai Military Bank and Bangkok Bank both confirmed yesterday that they are seeking Tier 2 capital apply for Tier I help.

Its comments came after Tarrin Nimmanahaemindas. finance minister, said Thai Military would apply for Tier I support. Although all lenders must provide the central bank with a viable capitaladequacy plan this month -

Diversified Indian

group must decide

what to do with its

writes Krishna Guha

India's stock market.

Since January last year,

Wipro's shares have risen

from Rs466 to Rs2123.5 on

Tuesday in a falling market.

glomerate and India's second

biggest software exporter, is

the country's fourth biggest

private-sector enterprise by

market capitalisation. It

(\$16.3m), up from Rs255m

But its success places it at

the centre of the most impor-

tant debate in Indian corpo-

rate circles: whether compa-

core activity or continue to

business environment with a

whereas Mr Premji is man-

aging a diversified business

bulbs and power cylinders.

duced 21 per cent of Wipro interests.

last year.

Wipro, a diversified con-

zim Premji, chairman of Wipro. is the darling of

other activities.

surviving institutions are still showing reluctance to bite the Tier 1 bullet. So far. only Siam Commer-

cial Bank has said it would help from the authorities. apply for Tier 1 support - a but Thai Military Bank swap of government bonds denied that it had decided to for preference shares. The state could end up holding 40 per cent of the equity under SCB's current Bt22bn (\$609m) capital plan.

The government's August 1998 hank support package imposes much tougher conditions on banks seeking Tier 1 support than on those

Wipro: the stockmarket darling

Share price relative to the S&P Composition 5 terms

1997

Corporation's sales - the

main listed company plus

joint ventures - but 66 per

computer bardware, infor-

mation technology generated

57 per cent of sales and

our company on the basis of

tion technology is a domi-

and it is going to be increas-

growth rates - particularly

He believes that in three

or four years, information

ing Wipro into an IT com-

"The market is valuing

pre-tax profits of Rs695m cent of profits. Including

nies should focus on one software," he says, "Informa-

exploit opportunities in a nant part of our business,

limited number of credible ingly so because of the

Part of the problem lies in in software services. There is

how investors perceive no other business in the

Wipro. They are buying a world today that grows at 50

with interests spanning technology will provide a

soap, medical equipment, much bigger proportion of

computer hardware, light sales and profits, transform-

Last year, software pro- pany with a number of other

high-growth software stock. to 60 per cent plus."

an IMF requirement - the opting for Tier 2 assistance. 1 requirements may be Existing shareholders in banks seeking Tier 1 funds Bank, Thai Military Bank would effectively see their and Bank of Ayudhya, which stakes wiped out.

All banks are expected to

seek Tier 2, non-equity help under the support programme: a relatively painless exchange of bank debentures for non-tradable bonds. The cabinet approved the issue of Bt1.7bn in bonds to

Software success gives Wipro hard core problem

This, however, raises the

question of what to do with

these other divisions, that

provide half of Wipro's turn-

over and employ the major-

Most investors regard

them as an unnecessary

drag on the IT business, and

would like to see them sold.

Some go further and suggest

Wipro should exit the low-

margin hardware business to

become a pure software com-

Mr Premji has other ideas.

He points out that they are

leaders in their own niche

markets and while he prom-

ises to restructure the

non-IT activities, he has no

intention of getting out of

"We will focus these other

be in more value-added seg- says gives Wipro exposure to

businesses more and we will

ments as against commodity

segments. But we do not

ity of its staff.

deeply wary of the sector, and non-performing loans boost SCB's Tier 2 capital. are likely to hit 50 per cent making it the first instituthis year. It also seems inevition to obtain state assistable that more banks will tance under this scheme. end up in the authorities' Analysts said the stiff Tier hands

However, Chatumongkol Sonakul, Bank of Thailand governor, said earlier that the Bangkok Bank and the Thai Farmers Bank have the resources to survive at least until June.

Even government assistance does not immediately end the pain, since it emphasises improving the appearance of capital adequacy without injecting significant fresh liquidity.

Observers still believe the government may have to buy bad debt to avoid losing the whole sector.

The remaining strand to

Wipro's strategy is to exploit

the opportunities that lie in

combining software skills

with expertise in other

industries. Computer hard-

ware is one obvious exam-

ple. Mr Premii says the

unglamourous hardware

division adds credibility to

Wipro's software skills and

opens doors to new business.

equally well to medical

systems. "We find high syn-

ergies between the medical

and computer businesses,

says Mr Premji. "One good

test is the transferability of

sales people and research

Investors have kept quiet

about Wipro's non-software

businesses while the soft-

ware boom has carried its

shares ever higher. Even

now, however, many pri-

vately have complaints. "I

do not understand Wipro.'

says one fund manager who

holds the company's shares.

He says he finds it impossi-

ble to justify spending 40 per

cent of the advertising bud-

get on consumer products or

keeping the power cylinder

If software growth falters,

the pressure on Wipro to

divest is likely to mount

Meanwhile it is up to Mr

Premji to prove that his ser-

vices vision is a convincing

formula for profit and not a

way of justifying a corporate

But the approach applies

#### Nissan Motor disposals continue

By Alexandra Harney in Tokyo

Nissan Motor, Japan's second largest carmaker, of an unlisted loom manufac Automatic Machine Works, a machinery manufacturer affiliated to Toyota Motor.

The move is part of Nis-

quarters last year.

he in talks with Daimler-Chrysler, the German-US automotive group, to sell Nissan Diesel, a truck and engine manufacturer in which it holds nearly a 40 per cent stake, although the company declined to com-

sales between Y10bn and Y20bn last year, according to Nissan. The Tokyo-based company employs a workforce of 330 and makes equipment for textile manufacturing, mainly water-jet and air-jet textile

said yesterday it would sell for an undisclosed sum most turing subsidiary to Toyoda

san's restructuring drive. launched last year amid the Japanese car industry's worst slump in decades. The carmaker, which expects losses of Y30bn (\$269m) this year, aims by 2001 to reduce consolidated debt by Y1,000bn from Y3,900bn last year, and to lower expenses by Y400bn over the same

It follows the sale of Nippo Agency, a promotional mate rials unit, to TBWA Worldwide, the Landon-based marketing group, and the sale of the company's Tokyo head-Nissan is also believed to

ment on the discussions.

The sale of the water-jet textile machinery business. which represents about 80 per cent of Nissan Texsys's operations, will

Nissan Texsys is capital-ised at Y9bn and reported machinery.

The details of the deal will be finalised next month. The deal was announced after the close of trading. Shares in Nissan jumped Y22, or nearly 7 per cent, to Y356 yesterday on rumours

about a possible tie-up with

DaimlerChrysler.

NEWS DIGEST

INSURANCE

#### Sun Life set to form Indian alliance

Sun Life of Canada yesterday joined the wave of international companies poised to enter India's insurance market when it detailed plans for a wide-ranging financial services alliance with the Aditya Birla group. The move comes as Indian politicians continue to battle over the fate of a bill to end the state's monopoly in the sector which tabled in parliament last month but referred to committee. Sun Life will take a 50 per cent stake in three existing

Birta companies, in stockbroking, asset management and retail distribution. An insurance joint venture will be established as soon the reforming legislation is passed. Donald Stewart, president of Sun Life, said he was optimistic that the sector would be opened soon. Aditya Birla will end its existing joint venture with Capital

International in asset management.

Sun Life and Aditya Birla join a number of alliances. including the Tata Group and American International Group, and Prudential of the UK and Industrial Credit and Investment Corporation. Krishna Guha, Bombay

BANKING

#### IBJ joint venture dissolved

IBJ Schroder Bank & Trust, the New York-based joint venture between the industrial Bank of Japan and Schroders, yesterday said the partnership had been dissolved following the purchase of the shares held by the UK merchant banking group.

The company, renamed IBJ Whitehall Bank & Trust, pur-chased Schroders' remaining 2.3 per cent stake for an undisclosed amount. The Industrial Bank of Japan had originally purchased a 49 per cent stake in the former J. Henry Schroder Bank and Trust in 1985. This was Increased to 97.7 per cent in 1989. IBJ Whitehall, which was capitalised at \$239.7m at the end of June 1998, according to IBJ, expanded its fund management capabilities last April through the acquisition of Delphi Asset Management for about \$20m.

industrial Bank of Japan yesterday said it had bought out Schroders and given back its name after the UK group had indicated that it wished to concentrate on its own investment bank activities in the US. Naoko Nakamae, Tokyo

**VIETNAM AIRLINES** 

#### Passenger numbers down

Vietnam Airlines transported 2.48m passengers last year, down 2 per cent from 1997, it said yesterday. The number of passengers on its international flights reached 900,000, down 5 per cent from a year earlier and 10 per cent from 1996. It blamed the fall on plunges in tourism and businesses affected by the Asian financial crisis.

The group said it transported about 40,000 tons of cargo last year, roughly on a par with 1997's volume. Although the company declined to disclose revenues, it said it was "relatively affected" by devaluations of the dong and regional currencies as it receives much of its revenue in dong but pays for fuel and leasing in dollars.

### Rhires Lehma ire to raise \$3bi

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Friday 22 January 1999

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> FINANCIAL TIMES No FT, no comment.

**CONTRACTS & TENDERS** 



CONOMIC & FINANCIAL SERVICES S.A.

ANNOUNCEMENT FIRST INTERNATIONAL PUBLIC TENDER FOR SALE OF THE ASSETS OF "THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A." known as "REMET S.A."

ETBA FINANCE ECONOMIC & FINANCIAL SERVICES S.A., established in Athens (1 Erstosthenous & Vas. Constantinou Sts.), in as capacily as special liquidistor, by virtus of Dadsion No. 4850/1988 of the Athens Count of Appasi, of the above company which is in special liquidistion as per article 46a of Lew 1892/1990, as supplemented by article 14 of Lew 2000/1991 as currently in force ANNOUNCES

international Public Tender, with sealed, binding oftens for the sale of the to ANY FOR THE SALE & RECYCLING OF METALS S.A." ("REMET S.A."). Summary data on the company under liquidation

THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A.: (REMET S.A.") owns a factory in the industrial zone of Patras for trading, importing, exporting, producting, processing and excycling famous and non-famous materia, whe cables of all types, scrap metal, as well as high-technology products and machinary of all types. The unit is installed on a self-owned plot totalling 6,029 mm area which is senced all around and rectangular in shape and faces a paved road. There is a weigh bridge by the central entrance of the open sma.

The building in which production takes place is 671 m² in area and also has a shed 342.57 m² in area plus a small electric power company building 18 m² in area. The building has been constructed with prelabricated reinforced concrete sections (both waits and collings), with corners floors and makel window and door frames.

he mechanical equipments is suitable for the above-mentioned company operations. Tenses of the Annor

This tender will be conducted in accordance with the provisions of article 46e of Law 1982/1993 as supplemented by article 14 of Law 2000/1997 as guirantly in force; the terms contained in the present Announcement and the terms contained in the Officing Memorandum, regardless of whether or not they are repeated in the present. The submission of a binding office implies acceptance interested parties may obtain a detailed Offering Memorandum and ask for any other information on signature of a confiden

interested parties are invited to submit a sealed, binding offer to the Athere notary public analyzed to the lander, Mrs. Constantina A. Vessillou at 104 Acolou Street, Athene, led. (301) 3217222 by 12 noon on Thursday, 28th Jenuary 1999. Offices must be automited in potent of by a logality extinction of representative. Offices submitted beyond the time time will not be accepted or baken into consideration. Offices must not contain terms upon which their binding quality will depend or which create vaguences with regard to the amount or the method of payment of the officed price or with regard to any other essential points.

Offices must be accompanied, on penalty of carcellation of the offer, by a letter of guarantee from a flet dees bank legatly of in Greece, to the amount of fitty million drachmen (GDR 50,000,000) as per specimen contained in the Offering Memorandu until the adjudication for low bidders and until eignature of the sale contract for the highest bidder.

The offers will be opened by the above-mentioned noticy in her office at 14:00 hours on Thursday, 28 Janu-parties who have submitted binding offers within the time limit are entitled to atland the opening of the offers.

The sealed, binding offers must operficelly state the offered amount, in what currency and the method of payment (whether in cash or on credit). In the event that payment is to be on credit the offer must state the number of instatrients, when they are to be paid and the interest rate during the entire period up to final settlement. It mentions to not made of all the method of payment by whether the interest on credit will beer interest or not of the sale of interest, then it will be correspondingly deemed that a time amount will be paid to cash, b) the balance on credit will not beer interest, of the rate of interest for the balance on credit will be calculated on the laterest rate of the latest times.

The factory is offered for any kind of production that the porchaser may choose. In any event, however, the purchaser must at his own expense and care, see to the corresponding leaving of the recessary work perhit. . In the event of part payment on credit, the present value will be baken into account, which will be calculated with the interest rate of the bases house of state bonds of one year's duration, if the offer is made in toreign currency, for its conversion into deschases, the fixing price of the Bank of Greece on the final day for the submission of offers to the present bander will be used.

The highest blocker to the tender will be the one whose offer will deemed by the creditor ETBA S.A., following the proposal to this effect by the liquidator, to be the most statistaciptly for the creditors of the company in liquidation.

The elements which make up the company's assets shall be noted that it and where is and, more specifically, in their actual and legal condition and at the place where they are situated on the day of signatures of the sale contract. The liquidator and the creditions are not responsible for legal or actual defects or deficiencies of any kind of the essets for eals, nor for any incomplets or inaccurate discription of them in the Offering Memorandum, translated perfes, aboutd, with their own means, disgonce and responsibility, and at their own expense, both kind and form their own expense, both kind and form their own assessment of the objects for sale. The submission of an offer implies that the Conception to ampense, book into and form their own assessment or the degrees we arriveled purry in hely aware of the legal and actual state of the objects for sale.

11. In the event that the person to whom the assets of the company under figuridation are edjudicated falls in his obligation to appears it in time and place specified in time legulidator's invitation, in order to sign the relative contract in accordance with the terres of the present Announcement and of his offer, as finely composed, then the guaranties, as above, is fortained in favour of the foundation and the creditors in order to cover all expenses of any kind, time spent and real or gaper losses sustained, with no obligation to provide proof of such, or consider the amount as a penalty clease and collect it from the guaranter bank. 12. The Equation and the creditors bear no responsibility towards participants in the tender, both with regard to the report assessing the offices, to their proposal of the highest bidder, to their decision to repeat the lander and, generally, with regard to other decisions taken concerning the procedure and execution of the tender.

13. Those parties taking part in the tender and submitting offers do not acquire any right, claim or demand form the present Announcement and from their participation in the tender, against the liquidator or the creations for any cause or reason.

A According to para. 13 of efficie 48s of law 1832/1930 the sale contract and the recessive transfers scorning from it and any other relative translation are extended from zone, cluss or state or third party rights or stamp duties, while the rights and less of notaties, lawyers, supervisors and managagers are restricted to 30%. Any expenses incurred in the sale of the assects (VAT, the less of lawyers, notaties and montpagers, judiciary supervisors, etc.) rights and other expenses are to be borne by the buyer. The present was drafted in Great and translated into English. However, in the overs of differences occurring in stanslation, the Great test will provid.

in order to obtain the Ottering Memorendum and for any additional information, se apply to the offices of the liquidator ETBA FINANCE Economic & Financial Services S.A. 1 Enabethanous & Ves Constantinou Sts (4th Pipor) Athens, Tel. (301) 7580210, (301) 7560278, (301) 7560506 and Fax (301) 7560864 (Mr. Ch. Papadimintados and Mrs. S. Anagosetopoulou).

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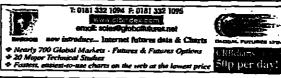
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### Griffin probe alleges unauthorised trades

and Mikki Tait in Chicago

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in alliance

The investigation into the collapse of Griffin Trading man government bond between \$1.5m and \$2m. Co, a Chicago derivatives futures on Eurex, Europe's were related to those of Mr firm, has uncovered alleged unauthorised trading by a senior executive at the firm ries into the collapse have ued to refer all calls and which could have cost it up to \$2m.

ruptcy last week after John financial officer at Griffin in

office, incurred losses of 96.2m (\$10.3m) just before Christmas in trading Gerbiggest futures market.

It is understood that inquiuncovered possible unauthorised securities trading Griffin filed for bank- by Scott Szach, the chief

estimated initially at available

Griffin yesterday contin-Park, a trader associated Chicago. It was not clear last firm representing Griffin. Mr trades, were frozen, prevent- funds transferred to other SFA's decision.

Mr Park's pre-Christmas losses led to the closure of losses at Griffin emerged as Griffin's London office and the locals were preparing to meant independent traders of an associated firm, GLH meet the Securities & were being treated as part-(Derivatives). As a result, Futures Authority in Lon- ners in Griffin's liabilities" requests for comment to Ty funds held at Griffin by Fahner, a former Illinois about 100 other London inde- decision to freeze their treated as such for profitattorney-general at the pendent traders or "locals", assets. Traders who used sharing. The locals have Mayer Brown & Platt law who used it to clear their Griffin in Chicago had their taken legal advice on the

with the firm's London night whether the alleged Fahner's office said he was ing them from trading on firms, allowing them to conlosses, which people familiar in meetings in Washington the London International losses, which people familiar in meetings in Washington the London International tinue trading normally on with the matter said were DC and not immediately Financial Futures and the Chicago Board of Trade Options Exchange.

The likelihood of further Exchange. don today to challenge its but that they had not been

and the Chicago Mercantile

One local said the freezing

# above forecast

By Ken Warn in Buenos Aires

Argentina's government has set a minimum price significantly above analysts' expectations for the sale of a fur-unless they believe they can ther stake in YPF, the energy group.
It wants at least \$38 a

share for the 14.99 per cent stake. Achieving the minimum price - a 27 per cent premium over yesterday's opening price of \$30 - would raise \$2bn.

accounts for about 50 per buyer of the 14.99 per cent cent of all hydrocarbons stake seeking majority conactivity in Argentina, both trol without buying outright upstream and down. Companies that have expressed an interest in the stake include ers to revise the statutes. UK-based BP Amoco, Repsol. the Spanish oil company. Italy's ENI, Consolidated Natural Gas of the US and Perez Compane, Argentina's the government, eager to second-biggest energy group. Bids are due to be opened on

"This appears a very high

energy analyst at Credit Lyonnais in Buenos Aires, " don't see anyone making an investment of this size move to have control of

However, under the company's statutes, anyone buying 15 per cent or more of YPF must make the same cash offer for all the outstanding shares, which at \$38 a share would value YPF YPF, privatised in 1993. at \$13bn. Alternatively, a would need the approval of two-thirds of the sharehold-

The clause was originally drafted to stop YPF, Argentina's biggest company, falling into foreign control. But boost its privatisation receipts, now appears relaxed about the ownership Analysts had expected a issue. However, it will mainfloor price of about \$34. tain its "golden share" to **NEWS DIGEST** 

#### **Phillips Petroleum to** cut jobs and spending

Phillips Petroleum yesterday joined the long list of oil companies to cut jobs and capital spending in reaction to the worst industry conditions in 12 years. The Oldahomabased group said it would cut about 1,400 jobs from its 17,200 workforce, reduce 1999 capital spending 30 per cent to \$1.5bn and take other cost-cutting measures, which it says will save it \$230m annually.

The company expects fourth-quarter results to be near break-even before taking about \$339m in charges. Exploration and production spending will fall 44 per cent to \$800m, far ahead of the average 11 per cent projected for the industry in 1999 by Salomon Smith Barney. The company also said that replacement of oil reserves in 1998 would be 60 per cent instead of a planned 80 per cent, as low oil prices make some projects uneconomic. Reuters, New York

#### Alliance to buy terminal

An international consortium including Enbridge of Canada. a leading energy transport, distribution and services company, has reached an agreement to purchase an oil storage and ship loading terminal in Venezuela from state oil company Petróleos de Venezuela for \$385m.

The consortium includes Williams International and

Northville Industries, with 45 per cent and 10 per cent stakes, respectively. Enbridge, holding the remaining stake, said it saw opportunities to expand the terminal and expected earnings to "ramp up" in coming years. Raymond Colitt, Caracas

#### **ECUADOR**

#### Bank regulator blocks merger

Ecuador's banking regulator decided on Tuesday to block the merger between Banco del Pacifico and Banco Popular which would have created the country's largest bank with combined assets estimated at \$2.3bn.

Though shareholders approved the merger unanimously in November, a foreign shareholder group with 13 per cent of Pacifico's stock decided to oppose the merger. The regulators said the fusion could continue once the bank and the shareholders had settled their differences.

Pacifico and Popular said in a joint statement that the regulators acted unlawfully, that they were studying legal means to reverse the decision and that the merger would

### Boeing cuts knock Northrop | YPF sale price

iby Christopher Parkes in Los Angeles and ( Mikki Tait in Chicago

Northrop Grumman shares tumbled more than 7 per cent in early New York trad-ing yesterday after the US space and defence group warned that 1999 profits could be 20 per cent lower than expected, and announced a \$125m charge against earnings for the clos-

ing quarter of 1998. The news, which came as AlliedSignal announced a shake-out of its aerospace operations and follows recent profits warnings from Boeing and Lockheed Martin, depressed Northrop's stock as the market hit new highs. By lunchtime, the shares had slid \$5% to \$67%. The charge would reduce 1998 earnings by about \$1.18 a share, the company said. "We believe the current analysts' consensus [profits] estimate for 1999 is overstated by approximately 15 and cabin pressurisation to 20 per cent," added Kent systems, generated \$3.6bn in Kresa, chief executive. However, revenues were still

ing's planned production cuts for most of its problems, and said reduced demand for commercial airliner components would reduce 1999 revenues by about \$350m. It said cuts in 747 jumbo

jet production had disrupted its production lines and incurred costs which it aimed to recover from Boeing, and which were not included in the latest charge. About \$20m of the charge was attributable to delays affecting tests of a joint defence contract for the US and UK armed forces.

Meanwhile, AlliedSignal, the diversified group which last year lost a \$10bn battle to take over components group AMP, said a "realignment," of its aerospace divisions, intended to simplify the group structure and reduce costs, would yield annual savings of between \$30m and \$50m.

The operations, which include avionics, electronics revenues in the first three expected to increase slightly. The company blamed Boe-\$44 syesterday morning.



Kent Kresa; enalysts' estimates of profits overstated

Northrop, which announced a \$60m charge in jobs next year. August, said recently that quarters of last year. Allied- Boeing, for which it makes Signal shares rose \$1/4 to fuselages and doors, would

more commercial aircraft The move brought the the latest round of cuts at number of redundancies planned for 1999 to about 9,000, or 17 per cent of the

January 20.

#### prevent YPF moving its fisprice for a passive invest- cal presence from Argentina. DEPOSITARY RECEIPT LEADERSHIP

#### **ALSTOM 89** Ahold ARBANE TI RE AMONTH SIEKETI **AMVESCAP** anglogold Allied Zurich p.l.c. 1.14 enter 11.5 SPONSORED RECULATION 5 GLOBAL DEPOSITATA RECEIPT (GDI PACILITY BANKINTER CA to Destricted ay Conces, 1465. SPONSORED AMERICAN DEPOSITARI RECEIPT (ADR) FACILITY SPONSORED RECULATION S Do Co Mo centrica A LESSE RUTHING AR AR VE A SORED 144A GLOBAL DUPO RLUZINT (GDR) FALTUSTY SPONSORED REGULATION S GLOBAL DEPOSITABLY RECEIPT IGDS HACILITY PONSORED AMERICAN DEPOSITA RECEDIT VADRA FACILITY Another \*FINANSBANK very good Finans Bank A.S. GOLD FIELDS CREET WALK GLUBAL DEP MECELITY (GDR) FACULTY OKED 144A GLOBAL DEFOST RECEIPT ICEDIO PACILITY PONSORED IGAA GLOBAL DERUSITAR RECHIPT IGDBI FACILITY year. SPONSORED REGULATION 5 LOSAL DEPOSITATO ELECTIFI KE FACILITY SPONSORED RECULATION S GLOBAL DEPOSITATIVE RECEIPT (CORE FACILITY SPONSORED REGULATION S GLOBAL DEPOSITATO RECEIPT (CDR) PAGILITO PONSORED AMERICAN PEPOSITARI RECEPT (ADRI FACILITY JM(57) **⊙** MALTACOM 🊜 National LADBROKE GROUP Johnson Matthey NEGOSTO HAACIJO AAH CESOOZIA CECITO A UPIQUE PACETOS भाक्त ५ ज्ञांच्य (मा DRETT AMERICAN CEPCO SOMED AMERICAN DEPOS RECERT JADRI FACILITY ONSORED AMERICAN DEPOS RECEIPT (ADDR FACILITY PONSORED REGULATION S GLOBAL EPOSITALIY RECEPT (GDR) PACILIT SPONNORED RECULATION S GLOBAL DEPOSITARY RECEPT (CERT) FACILITY (Rhodia sappi limited PANATON 시도 immbet GEM ORED AMERICAN DEPO MSORED AMERIKAN DEPOSITAS RECEIFT (ADRI FACILITY ucteggok sponsored american Epositary recept (addi facelity ORED AMERICAN DEPO RECEPT IADRI FACILITY SPONSORED REGILATION 5 GLOBAL DEPOSITATO RECILITY (GDID FACILITY) Ø 匇 基UBS swisscom **STELECOM** United Utilities ASCORED 1844 GLUBAL DEPOS RECEIPT (COR FACILITY √vii warbi ti SPONSORETY GLOBAL DEPOSITAR PECEDYT (CDR): FACULTY SPONSORED REGULATION 5 OIAL DEPOSITARY RECEIPT (CDE)

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### CTR hires Lehman in drive to raise \$3bn

CTR Group, the company total cost of \$14bn. behind Project Oxygen, a planned global fibre-optic in project financing.

system. Such an endorsement would provide a critical boost for Project Oxygen, which is hoping to start construction on the first part of its submarine cable system linking Europe, North and South America this spring.

Eventually, the network, which has been hailed as the "super internet", aims to the end of the first quarter.

link 170 countries with 300,000km of cables, at a has already signed up over

cable network, has fired line of last December for over 25 years. J.P. Morgan as its financial raising the first portion of adviser and hired Lehman funds. Neil Tagare, chair- North American Gateway, rity on its the money very soon.

equity and \$2bn in debt and vendor financing. It has \$500-\$600m of soft commitments for the equity portion, largely from investors wanting to participate in internet ventures. None of these are Tagare is confident that all

Meanwhile Project Oxygen 40 international telecords However, CTR has already operators and pre-sold them missed a self-imposed dead- more than \$1bn of capacity

These carriers, including Brothers to try to raise \$3bn man and chief executive, Russia's Rostelecom, VSNL said: "Lehman Brothers has of India and Telecom Egypt, CTR also confirmed that a put a large number of senior have been at the smaller end leading US telecommunica- people on to our project and of the industry. Larger opertions operator is close to we are confident of raising ators have been reluctant to participate, as they own CTR is looking for \$1bn in most of the under-sea cable systems with which Oxygen will directly compete.

Mr Tagare said the interest now shown by larger carriers demonstrated an increasing acceptance by the sector's giants that low-cost, telecoms companies. Mr high band-width networks like Oxygen would transthe equity will be in place by form the industry's econom-

### Underwater venture needs backing to stay afloat

Success of vast network is not assured, writes Daniel Bögler

ity. CTR Group, a New Jersey-based start-up, is pro- of today's international calls posing to encircle the globe with a vast network of But with traffic volumes underwater fibre-optic growing at 80-100 per cent a cables. Dubbed Project Oxygen, the network would span 168,000km across 99 landing points in 78 countries, reaching every continent but Antarctica and furnishing the infrastructure for a "super internet".

Neil Tagare, chairman and Spromises that Project Oxygen will allow true connectivity from anywhere in the world, erase the distinctions between voice, video and data telecommunications and lower prices to such an extent that carriers will no longer bother to charge for traditional phone calls. If it is built, that is.

With construction due to start this summer. CTR has ments - and still be able to yet to raise the \$3bn for the charge between four and 100 project's first phase. How- times less than existing ever, the group has just cables. switched financial adviser from J.P. Morgan to Lehman Brothers and Mr Tagare is confident the financing will be in place by May.

Independent voices, however, are less sanguine. Abhi send traffic around the Chaki, analyst at Jupiter world had to buy or lease Communications, says: separate circuits for every "Oxygen could have a tre- segment along the way, paymendous pay-off. But it is ing transit fees to local high risk, high reward. It rivals. By contrast, those remains to be seen whether who buy access to Oxygen they will get the money will be able to send traffic

The commercial logic in cost.

The commercial logic behind the venture, which Mr Tagare proposed in June

in cost.

The third advantage is Mr industry, first needs investigation. Tagare himself. Although

about to turn into real- seabed is already littered with telephone cables - most are routed through them. submarine cable system yet built has remained unfilled", who runs communications

On top of that, Project Oxygen has three big advantages over rival systems. hief executive of CTR, First, its sheer size, which will bring it huge economies of scale. It is six times as large as Flag (Fibre-optic link around the globe), a 28,000km undersea cable between Japan and the UK. Combined with Lucent's most modern optical networking equipment, Oxygen will have super-high capacity - up to 1.9 terabits per

consultancy KML

second across shorter seg-Second, Oxygen is the first system designed as a net-

point-to-point approach. Under the old system, telecoms carriers wanting to under current market condi- from any landing point to any other with no difference

he call of the sea may be 1997, remains. Of course, the CTR only employs around 50 well-known figure in the industry and was closely involved in Flag.

· Even so, CTR has scaled

back its ambitions. Originally, Oxygen was planned as a 300,000km network connecting 171 countries with a according to Jack Kessler, price tag of \$14bn. That was quickly cut into two phases. with the first 158,000km at a cost of \$10bn to be built by early 2003 and ubiquitous coverage, including Africa to be added later. The first phase has now been subdivided, which is why the group is now looking for a more modest \$3bn to build an Atlantic Ring between Europe, North and South America by late 2000

is intensifying. Apart eanwhile, competition from traditional cable systems and new fibre-optic rivals like Qwest and Level3. Oxygen will also have to deal with a growing number of satellite networks. Courteney Munroe, telecoms analyst at research house IDC. work rather than using a says Oxygen will be cheaper than any of these, but argues that the best way forward might be a joint venture or merger with a satellite consortium to fill gaps in their respective coverage.

Marine surveys are planned this month and the first batch of money will pay for six cable-laying ships to kick off construction. But Project Oxygen, so named because it aims to breathe

### Lucas Varity in talks with several parties

LucasVarity, the automotive and aerospace components to expand through a series of small-scale acquisitions, to everyone else." joint ventures and alliances

serious blow to its stock

has delivered unexpectedly

two months to Christmas

ahead of last year, excluding

the impact of new space. The

news boosted Next shares by

The group yesterday Chri revealed that sales in the lyst.

banker familiar with the company said: "In this industry, everyone is talking

LucasVarity is understood rather than a full-blown to be particularly keen to merger or sale of the com- build up its steering and sus- of these conversations will pension activities, to allow it result in a definitive agree-The group confirmed yes- to sell integrated chassis terday that it was in discus- control systems. It said that sions with "a number of its strategic options included Lucas Varity's shares by reluctant to accept a second results in March, when it aftermarket sales.

to prove considerably better

Next, the fashion retailer than that achieved by its ures to the end of January,

that last March suffered a rivals in the same period, like-for-like sales for the sec-

"Arcadia, House of Fraser

ating they had a terrible

Christmas," said one ana-

"Next has definitely out-

However, analysts warned

against extrapolating Next's

market credibility after ing their Christmas trading

good news to a beleaguered and Debenhams are all indic-

issuing a profits warning, statements next week.

Eve were some 6 per cent performed the market."

"joint ventures, acquisitions, another 114p to 2264p, valuthat these were at a prelimi- dispositions, alliances, and mergers or other combina-

> Although it is thought to have talked to TRW and other US components companies, the group said: "There can be no certainty that any

The statement helped lift poration of the US may be deal until its fourth-quarter

"When they report the fig-

many of whom will be mak- ond half will probably be 18 per cent lower than last

last year, which is exactly

where we thought they

\$269m) for this year, against

On the whole, the state-ment reassured analysts

last year's £184m.

December performance to chandising errors that months ago."

about 3 per cent down on year, and David Jones, chief

would be," one analyst said. 18 per cent reduction for

Profit forecasts were held at next year.

about \$150m-\$160m (\$252m-\text{We have shown we have}

that Next was recovering want to be, but it is a hell of

ment.

Next reports stronger trading

ing the group at almost Analysts said Lucas Varias strategic review.

23.2bn. John Buckland, an ty's shares, at 12 times fore. Tenneco, which has been analyst with Daiwa, said: cast earnings, were no lon-"Considering the price now, ger at a significant discount

prompted last year's profit

the January sales were some

executive, said the group

aimed to achieve a further

recovered from our problems

and we will do well," he

said.
"We are still not where we

an improvement on 12

Stock levels going into

most shareholders are to many of their US peer expecting much more than a group - an argument the no-premium merger." Others added that UK port its case for changing ating income would fall this investors who held shares in domicile. Lucas industries before its 1996 merger with Varity Cor-

company had used to sup-The company is not expected to announce any large

suggested as a possible partner for LucasVarity despite being seen as an unlikely candidate, said yesterday that its fourth-quarter operyear to \$25m-\$30m below analysts' expectations. The Connecticut-based company blamed weak automotive

### Cox sells 12% Telewest stake

Telewest Communications vesterday experienced its second substantial change in share ownership in two weeks when Cox Communications, the US cable group, sold a £450m (\$750m) stake

to institutional investors. The sale represented about 12 per cent of the UK cable company and forms part of a continuing shake-out of the lossmaking UK cable sector which has racked up billions of pounds in investment, and seen many of the original investors exit or merge their

However, the fact that such large holdings can be so readily sold also reflects a growing appetite for exposure to the sector: just before Christmas, Vivendi, the French utilities group. sold a 6.5 per cent stake in Telewest to institutional

The sector had been

shumned by investors as the cable companies performed badly against British Telecommunications in telecoms and British Sky Broadcasting in television. But recent marketing initiatives and rapid consolidation have changed the industry.

Telewest emerged as the UK's biggest cable company. measured on homes passed. last summer when it took over General Cable: a move which brought in Vivendi. Dresdner Kleinwort Ben-

son is believed to have bought 253m shares from Cox for about 175p and placed them with investors at 180p. Telewest shares closed unchanged at 205p. It is understood the US group was keen to quit its only UK investment to free

resources for domestic capi-

COMMENT

Next

Next has dug itself out of the hole into which it stumbled so spectacularly last March. That alone justifies the sigh of relief that greeted yesterday's trading statement. The acceleration in like-for-like growth over the 21 weeks before Christmas, culminating in a 6 per cent advance in the past eight weeks. suggests that the "merchandising police" deployed to correct buying mistakes are working. The trading statements to come from Marks

and Spencer, Arcadia and

which putter

ate. for side

Debenhams are also likely to show Next's figures in 2 favourable light. The retailer may have resolved its self-in flicted problems, then, but there are good reasons why its shares, which are 30 per cent below last February's peak may not regain that ground in a hurry. First, Next Directory's catalogue sales fell 2.5 per cent since August. Technical factors were partly to blame, but competition is also getting stiffer. Second, these figures were helped by their comparison with grim results from the previous year. Had the review period included the January sale, when stock clearances boosted sales by 85 per cent in 1998, the headlines would have been very different. Finally, all clothing retailers are facing tougher times than a year ago. Producing decent sales growth when rivals like M&S are struggling is one thing. Next still has to prove that it can outperform again once others are back on their feet.

Not content with going for world domination in accountancy. PwC now wants to do it in law. It sounds like ambition gone mad, but it would be churlish to dismiss the group's plans. Neither profession is hermetically sealed: tax advice is a prime example of overlap. And if corporate clients want a one-stop shop geographically, it is not unreasonable to think they might want the same in professional services. On the legal side, even smaller firms must increasingly be finding themselves doing cross-border work. PwC's network would offer them quick access to international expertise. The biggest law firms will, no doubt, be sniffy. Only last year both Freshfields and Linklaters struck up continental alliances. But the legal profession still lags too far behind both the accountants and its precious allies in investment banking to be complacent on globalisation.

### Allied Textile buy-back likely

strong November and from the buying and mer-

Allied Textile, the carpets and cloth manufacturer, is investors to see what form planning to return cash to shareholders in the coming returned in. A buy-back year, probably through a share buy-back.

announced declines in turnover and operating profits 116%p. for the year to September 30, alongside a special dividend However, it had £25m

(\$42m) cash on its balance sheet at the year end.

RESULTS

tive, said: "We are consulting with our institutional they would like the money seems to be the preferred option and with such a cash The company yesterday mountain it seems sensible."

> The company said it bad been a tough trading year which had only seen an increase in pre-tax profits been achieved in spite of talking to synthetic and nat-

> > 0.106

Earnings strown basic. Dividends shown net Flowes in brackets are for corresponding period. Walter experience coefficient

(-)

John Corrin, chief execu- profits, including £4.7m of market expectations. property receipts, edged up from £16.3m to £16.5m.

However, turnover fell from £231.7m to £206.5m and operating profit slipped from £15.9m to £11.8m. Earnings per share were 18.7p (16.6p). Allied is planning a final The shares rose 5½p to dividend of 10p, including division down. the 4n special payment, compared with 5.7p last year.

property disposals. Pre-tax and were better than most ern Europe.

(- **)** 

The natural fibres division had a particularly difficult year, with operating profit falling from £6.1m to £2.8m. Mr Corrin said tough competition in the production of basic flannel for winter coats in the US had dragged the

Mr Corrin said Allied was assessing synthetic fibre pro-Peter Honeysett, chair- ducers in the UK as possible man, said the results had bid targets, and was also because of income from adverse trading conditions ural fibre companies in east-

### Photobition attacks Wace record

By David Blackwell

Photobition, the graphics and media services group that last month launched a hostile £83.1m (\$140m) bid for Wace, yesterday attacked the five-year record and management of its lossmaking target.

The offer document says Wace has suffered a fall in turnover of 20 per cent since decent price," he said.

1993, incurred a cumulative loss of £19.1m and paid no in the same five years. Phodividend since 1996.

Eddie Marchbanks. Photobition's chief executive, and doubled its dividend. Its denied claims by some institutional investors that the bid was an attempt to buy the digital imaging services group on the cheap at a lowpoint in its fortunes.

"We are offering quite a

0171

The document states that beginning to generate signiftobition has more than quadrupled profits and earnings share price has risen above 260p against 30p at the time of the 1995 listing, after There is a full cash alterna-

adjusting for a share split. Wace reaffirmed its rejection of the offer. Peter preference capital. Brown, chairman, said it

icant levels of new business. Photobition is offering Wace. At yesterday's close of 267%p, down 3%p, this values Wace at 58.6p a share. tive at 500: Photobition is also offering £39.2m for the

Wace shares rose op to been restructured and was 614p.

CHUGAI PHARMACEUTICAL CO., LTD. NOTICE OF AN ADJOURNED MEETING

P Downling Alm WCT. 7'4 miths to Aug 31 95.6 (-)

U.S.\$50,000,000 3% per cent. Bonds due 2000 CHUGAI PHARMACEUTICAL CO., LTD.

Notice is hereby given that an adjourned Meeting of the halders of the above Boards the "Boardhalders" je us crued by the laster of the led at the offices of Luddaee & Patrice, One State Lordon FCTY BIQ on 22nd January, 1999 at 11 a.m. (Lundon travel) for the purpose of controllering and, if thought far, privage the leditioning resolution which will be proposed as an Estimational Resolution in accordance with the provisions of the Timat Dead (the "Timat Dead") along 1918 September, 1996 made between the lower and Asahi Bank. (Sederland) by the "Timatee" as private for the Banklindiers. EXTRAORDINARY RESOLUTION

That this adjustment Memory of the budders of the outsiding U.S. SMU (III) (10) 3°, per cent. Bright the 200 (the "Bonds") of Eugen Pharmacontent Co. Lal. (the "Bonds") of Eugen Pharmacontent Co. Lal. (the "Bonds") of Eugen Pharmacontent Co. Lal. (the "Bonds") of the Eugen Theorem Co. Lal. (the "Bonds of the "Bonds of the Eugen Theorem") as trustee for the budders of the Bonds of the "Bonds of the "Bonds of the "Bonds of the Bonds of the Bonds

 approxes the approximent of the Bank of Tokyo Mitsuhuhi Trast Company as the new protect for the holders of the Bands (the "New Trastee"). 12) authories and requires the Truster, in side to give effect to paragraph (1), torthough to execute a Supplemental Tails Deed of the form of the draft produced to the Meeting and for the paragraph; a dendification signed by the Chairman of it with such assendments of any to of a the Truster shall acquire?
The Joseph without replace the Truster with the Sea Truster in the Truster will be closing from a sile to the truster.

down. The Jostic has accordingly conversed an adjustmed Meeting of the Bondhilders by the above Notice to require their agreement by an Extrapolatory Revolution to the matters continued in such Extrapolatory Revolution. The Jostic constant that the proposed modula attent, constanted in the Estrapolatory Revolution of our fewer are the and recognitive in the extrapolatory are under and recognitive in the extrapolatory are under and recognitive to the Estrapolatory Revolution. The according to the adjustment of the action of Bondhilders is purposally leaven to the quantum required for the adjustment Meeting which to very out in purposals for "Verying and Quorum" below. Capper of the Broads of the International Trust Deed referred to in the Future and Continuous of the Broads) and the death adjustment of the Broads and the Broads and the death adjustment of the Broads and the Broads and the death adjustment of the Broads and the Broads a

VOTING AND QUORUM

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SHOWA HIGHPOLYMER CO., LTD.

Notice is hereby given that an adjourned Meeting of the holders of the above Bonds (the Bondholder) Convened by the lesser will be held at the offices of Luskianus & Prince, Onc. Sik. Store, London ECTV BRQ on 22nd January, 1999 at 11.30 s.m. (London those for the purpose of considering and, if thought fit, passing the following resolution which will be purposed as an Eutraorthamy Revolution in accordance with the provisions of the Trust Deed the "Trust Deed" dark of a November, 1996 made between the Jasuar and Asahn Bank (Nederland) N.V (the "Trustee") as travece for the Bondholders. EXTRAORDINARY RESOLUTION

"That this adjourned Moting of the holders of the outstanding V3,000,000,000 0 7 per cont. Conventible Books due 2006 (the "Books") of Shown Highestyner Co., Lad. (the "Feuer") constituted by the Torst Deed dated I to November, 1996 (the "Triest Deed") under between the botter and Avails Bank ("Sederhard) N.V. (the "Triester") as mester for the bridlers of the Boods.

(1) approves the appearance of The Bank of New York, London Branch as the new traster for the holders of the Bonds (the "New Treater"); me notices of the Honds (the "New Treates, in order to give effect to paragraph (1), forthwith to execute a Supplemental Treat Deed in the form of the draft produced to this Meeting and for the purposes of identification signed by the Charman of it with such amendments (if any In II as the Trainte Mall require."

The Inster wishes to replace the Trainte with the New Trustee as the Trainte will be closing

The Issuer has accordingly convened an adjourned Meeting of the Bundholders by the above Notice to request their agreement by an Extraordinary Resolution to the matters consisted in

such Everantiness, Resolution.

The Issuer constuders that the proposed multifectators contained in the Estimatificary, Resolution set out above are fast and necromatific in the accountments and, accordingly, the Issuer strongly urpers all florabledges to rote in lawour of the Estimatedium's Resolution.

The attention of Brendfulders to particularly dispose to the quorant regional for the adjourned solution of the florabledges to particularly dispose to the quorant regional florabledges.

Copies of the Trend Deed referred to in the Estimatificary Revolution set out above well be as a label for management to the Boundarders at the specified officers of the Paying Agenta set out below.

Is a continue with nomial practice the Trivier expresses no opinion on the ments of the prepriet moderance but his nutherness it to be stored that it has no opinion to the Estimated New Recommendation of the the Continue of the Continue o YOTING AND QUORUM

4 Benefishige we hang an ampal and wate at the adjourned Meeting on person must produce at the Meeting either the Bondist, or a valid voting certificate or valid voting certificate reach by a Paying Agent relating to the Bondist or ne-pect of which he wishes to some. respecting a larging a great reasoning in the months of interspect of which the wishes to vage.

A. Bandholder mak we having to attend and were at the adjourned Meeting in pursual may either deliver by Bund's it or votting confidences to the pursual whom the wishes to attend out his behalf or give a votting antifection forms to us a voting antifection form or obtainable insens the veget-field officers on the Physiology Agents vet und below in restriction a Physiology to appears a prices y to attend and vote as the Meeting an accordance with his instructions. Boards may be deposited with any Paying Agent or the the subfaction of such Paying Agent held in its order or made its control by CodeReads or the Operator of the Euroclean System or an other ways of the Euroclean System of the Euroc

greate tests for deproved with any regular Agents or the the cultifactions of such Physical Agents leds in retorder to make its control by Code-Reads or the Operator of the European Systems or any other purs on approved by it, for the purpose of reliating writing certifications vice, going a vicinity was an aspect of the adjourned Meeting not have this flatters before the time approached for holding the blaceting. Notice we deposited or hold will may be relicined until the cartier of the conclusion of the adjourned Meeting and the surrender of the vicinity of the conclusion. We adjourned Meeting and the surrender of the vicinity and the surrender of the vicinity of the content of the property of the surrender of the vicinity arthresh to the surrender of the vicinity arthresh content of the vicinity arthresh the Meeting is two or more persons present in german holding Books or voltage certaincies or being proview whatever the principal attooms of Breads we hold or representant. If within 15 mention front the first for the adjourned Meeting and the fixed for the adjourned Meeting will be devolded on a show of hands being a quantum or an appropriate and proview and proviews have a proview and proview and proviews and proviews and proviews and proviews and proviews and proviews a Bond or voltage certification in practical amount of the Bonds for the time being curchisation (On a show or bands every person when is prevent up person and produces a Bond or voltage certification or as a princy shall have one vote. On a pull corry person when two prevent add have one vote in respect of each \$3,000,000 promagal amount of the whole is a produced or a proview and two to provide a proview and the province and provinces of the Bonds have one vote in respect of each \$3,000,000 promagal amount of the fine province and province of the Bonds are represented by the chart by a province of the bonds of the fine province and province of Bonds are provinced or represented by the voting compliance of produced or a propage of our propo

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Friday March 12

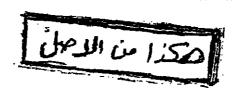
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#### TECHNOLOGY AND MANAGEMENT



#### Hover without bother

Judging height accurately has long been a problem for helicopter pilots flying or hovering close to the ground, but a new acoustic altimeter might provide a solution, writes Marcus Gibson.

4751

Traditional altimeters using radar and laser light (ildar) are well-established but suffer from inaccuracy at low altitudes, says Jeremy Nedwell, director of UK-based Subacoustech and a

iormer lecturer in acoustics. "This is due to difficulties in estimating the very short delays of electromagnetic waves when striking the ground at low altitudes.

In addition, says Dr Nedwell, lidar systems do not work well over water because it is transparent and light is not "scattered"

Sound, in contrast, travels much more slowly - at only 340m per second - allowing very accurate Sound has the advantage of bouncing back from most surfaces, and there are no surfaces that are entirely "absorbent", Dr Nedwell says.

Subacoustech, based in Southampton on the south coast of England, will soon begin aerial trials of its **Boundary and Altitude** Tracking System, Bats, a low-level acoustic altimeter and obstacle

avoidance system for helicopters that operate below heights of 40m to an accuracy of 2cm.

A compact transducer fitted to the underside of the helicopter emits a beam of ultrasonic sound, typically above 20 KHz. A new and powerful algorithm (mathematical formula) is used to

the beam to return. When rescue helicopters are involved in activities such as picking up casualties at low level in hazardous conditions, the speed and outcome of the mission often depends on the skill of and co-ordination between the

calculate the time taken by

pilot and winchman. The winchman frequently has to relay information about height over the intercom but the noisy environment can lead to confusion. Dr Nedwell says Bats can be linked up to

provide direct input into the helicopter's avionics. "It would allow a helicopter pilot to retain his station, and also provide him with a critical warning of impact," he

Captain Jim Ferguson, an experienced helicopter pilot, says an acoustic altimeter "would certainly help", especially if it could provide spoken readings direct into the pilot's . headphones. www.subacoustech.com

IN BRIEF

#### Wace record **Anticipation sets** off our mental alarm clocks

Some people seem to have mental alarm clocks that let them decide, guite accurately, the time they will wake up. The way this works is outlined in a paper ்ர் today's Nature, the ientific journal.

Researchers at the University of Lübeck in Germany monitored 15 volunteers over three nights in an experiment that involved waking some of them up earlier than they expected.

The results showed that the expectation that sleep induces a marked increase in the concentration of the hormone adrenocorticotropin in the blood an hour before

Their findings indicate that "anticipation, which is generally considered to be a unique characteristic of the regulation of conscious action, pervades sleep". University of Lübeck: Germany, tel 4515003639;

🆫 e-mail bom@kfg.mu-tuebeck.de

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SIZE ATS AND PAC OTHERS

#### **Drilling for cuts**

The cost of drilling for oil and other natural resources could be cut using "microdrilling", an approach being developed at the US Department of Energy's Los Alamos National Laboratory.

The drilling system, which costs 90 per cent less than conventional equipment and occupies 5 per cent of the space, can drill holes less than two inches in diameter. One of the advantages of Microdrilling is that it only requires a barrel of fluid per 1.000 feet of drilling for lubricating the bit and motor and removing dirt. Conventional drilling

requires about 40 barrels of rid per 1,000 feet. The researchers are also veloping miniature seismic instrumentation packages that can be placed inside the microholes for data gathering. Los Alamos National Laboratory: US, tel

5056657778; e-mail tmart@lani.gov

#### HIV cell therapy A pioneering technology for introducing large proteins into cells is being used to destroy HIV-infected cells.

Researchers at the Washington University School of Medicine say the work is "the first example of an entirely new field of protein therapy". Two enzymes that induce

cells to commit suicide were

attached to a protein that , can slip through cell membranes. This combination of proteins caused cells infected with active HIV to kill themselves within a few hours. The month's Nature Medicine icumai usas a new technique which involves unfolding the proteins before they are passed across the cell membranes. The approach may be applicable to other infectious diseases.

The technique will next be applied to prostate cancer. Washington University School of Medicine: US, tel 3142860119: e-mail sage@medicine.wustl.edu

**Hot air efficiency** 

Researchers in the US have developed technology for improving the efficiency of coal-fired power stations, which could help to cut greenhouse gas emissions. The high-performance

power system, developed by the United Technologies Research Centre, blows hot. pressurised air through a turbine to generate electricity. The system, known as HIPPS, is more efficient than existing plants because it does not involve creating heated steam. Researchers used an alloy

capable of withstanding pressurised air heated to a record-breaking 2,000°F. This could increase power plant efficiencies from about 35 per cent into the upper 50 per cent range. Energy & Environmental Research Center: US, www.eerc.und.nodak.edu/

Vanessa Houlder



An armada of why the Martian climate spacecraft will visit underwent such profound Mars over the next "Foremost among the scidecade, writes

red planet

**TECHNOLOGY MARS EXPLORATION** 

of life

on the

Leonard David

the planet.

scripted for the next decade.

From 2001 to 2011, an inva-

sion of robotic orbiters, land-

ers, hoppers, and penetrators

balloons – is envisaged. The

main aim is to understand

the history of the planet,

which in turn would resolve

whether there is, or ever has

Dried riverbeds, deep can-

yons, vast canyon systems,

and what appear to be

ancient lake shorelines all

point to a warmer and damper Mars in the past.

The real trick on Mars is

laynes, director of the Mars

exploration directorate at

Nasa's Jet Propulsion Labo-

ratory (JPL) in Pasadena.

California. The truth will be

established only if scientists

been, life on Mars.

including mini-aircraft and

In search

entific questions we are trying to answer is understanding the biological notential It may be 20 years before human foot-prints are seen on the of Mars," says Carl Pilcher, Nasa's science director for solar system exploration. "Did life arise on Mars? The sandy stretches of Mars, but the red planet is set to be a answer to that question is regular fixture in world profound, whether it is yes space agencies' flight schedor no." An international roadmap ules as they prepare for that

for future red planet explora-On Sunday, the US tion includes Nasa - which National Aeronautics and is spending about \$300m a year on Mars exploration Space Administration (Nasa) until at least 2005 - the Cenlaunched Mars Polar Lander. It is due to touch down near tre National D'Etudes Spathe edge of the planet's tiales (CNES), which is south polar cap in early December. It follows the France's space agency, and the Agenzia Spaziale Ital-December 11 launch of Mars iana, the Italian space Climate Orbiter, another

Nasa project, which should enter its orbit by late Sep-Nasa has begun discussing collaborative work with Japan, Germany and the The duo of probes, collec-European Space Agency tively known as the Mars '98 (Esa), which could encomproject and costing \$357m pass Esa's proposed Mars (£215m), are the second (£215m), are the second Express project. Due for instalment in a long-term launch in 2003, this may programme of robotic Mars carry the Beagle 2, a lander exploration. They continue designed by the Open Unithe work of the now silent versity in the UK for seeking Mars Pathfinder lander, best remembered for its signs of life on Mars. A key element in multi-na-

tional Mars research Sojourner mini-landrover and the stunning pictures of involves using France's powthe Mars surface it sent back. The Mars Global Surlaunch a French-made Mars are more modest. Mars Cliveyor is already in orbit, takorbiter in 2005.

It will scoop up soccer ing detailed photographs of ball-sized containers of Mar-These Nasa projects are tian rock and soil that will the vanguard for an armada have been flung into orbit via small rockets fired from of spacecraft from various nations which will explore the planet's surface. The Martian territory before CNES-built orbiter will rendezvous with the containers, astronauts can make the trip. Early next century, robot vehicles are due to send soil and rock specimens perhaps in Australia, in 2008. from Mars back to Earth. It is all part of a masterplan for Mars that has been following years, with scientists eager to analyse each

> 'Did life arise on Mars? The answer to that question is profound, whether it is yes or no'

bit of material in order to

picture of Mars. "We don't believe that for to figure out where is the the next 10-15 years we can says Norman build and launch small enough equipment that can do those kind of measurements on Mars. So we have to bring Mars back to the equipment," says

New horizons: an artist's impression of the Mars Polar Lander erful Ariane 5 rocket to recently launched spacecraft ice caps."

sphere and scour the planet for water. Polar Lander, meanwhile, will cast off a pair of micro- and carbon dioxide. probes en route to its own landing. Falling through the thin Martian air, these sending back to Earth the devices will hit the ground precious cargo for landing, at speeds of up to 200 metres per second and burrow Several robotic sample themselves a metre into the missions are envisaged in soil. The probes are fitted water ice, measure soil tem-

or a metre into the surface we might be able to examine a hundred thousand years of the Mars geologic record," says Richard Zurek, JPL's unveil a past and present project scientist for both missions.



mate Orbiter is designed to arm is ready for double duty. collect data from the atmo-Soil samples will be scooped up and heated in small ovens, which will reveal concentrations of water, oxygen

with tiny sensors to detect record the planet's sounds tific locations on the planet sending humans to explore a on a computer speech recog-nition chip. Even in the thin its by humans. perature and even to monitor weather conditions at their respective impact sites.

The Lander itself will carry a two-metre long robotic arm which will stretch out and dig trenches into the is believed to consist of lavered dust, ice and frozen soil. "By digging half a metre

"If you are looking for life, the polar regions offer one environment that might be favourable to the persistence of life if it has developed on Mars," says Dr Zurek. There may be liquid water crunching into the soil are tise on the spot anyway. "I expected to be heard. A lis- would personally be very

Another experiment will bring back the sounds of Mars. Sponsored by The Planetary Society, a California-based public space experts foresee robot colonigroup, and University of Cal-sation of the faraway world ifornia at Berkeley scientists, a microphone will

net. tain to reveal far more of the red planet's secrets. JPL

- automaton-run outposts there. And what could make established at prime scien-

ten-link to Mars will be surprised if over the next 20 available through the inter- years it turns out to be extremely easy to find Within the opening two extant life on Mars," says decades of the next century, Steve Squyres, professor of robotic missions seem cer- astronomy at Cornell University in Ithaca, New York. "Sooner or later, you are

going to want to make the transition to having humans a more compelling case for planet than the search for life," he adds.

#### A brief history of Mars missions

1960s: former Soviet Union launches first surrounding terrain, which Mars probes, writes Leonard David. All fail to fly by the planet or return planetary data. US Mariner 3 fails at launch, but Mariner 4 completes first successful photo fly-by of Mars, followed by Mariner 6 and Mariner 7 which send back further pictures. 1970s: both USSR and US have Mars mission failures early in the decade. Russia's Mars 2 and Mars 3 drop the first landers onto the Martian surface. Both apparently fall victim to a raging dust storm. US Mariner 9 swings into Mars orbit, transmitting thousands of images showing dormant Martian volcanoes, a large valley and other striking features. Russia's Mars 4, 5, 6, and 7 encounter differing sets of problems at the planet, limiting their usefulness. Dual US Viking landers touch

experiments while two Viking orbiters carry out photo-mapping tasks. 1980s: USSR's Phobos 1 lost on way to Mars due to ground command error. Contact with sister ship, Phobos 2, fails as craft nears one of Mars' two moons. 1990s: US Mars Observer lost on approach to planet, perhaps due to failed fuel line. US Mars Global Surveyor settles into Mars orbit and now sends back detailed photos and other science data. Russia's Mars 96 suffers launch failure, tumbling back to Earth. US

down on Mars to conduct search-for-life

Mars Pathfinder plops down on Mars using air bags, then dispatches Sojoumer micro-rover, Japan's Nozomi Mars orbiter now en route to the red planet, along with the US Mars Climate Orbiter and, launched on Sunday, Mars Polar Lander.

INTERVIEW G.P. GUPTA, INDUSTRIAL DEVELOPMENT BANK OF INDIA

### The corporate surgeon

He is an experienced hand in the financial sector. But, says Krishna Guha, he wants the bank to stick to its knitting

India's higgest finan-cial institution has a job rather like a battlefield ally cautious, and surgeon's. With the industrial economy suffering from a sharp slowdown, G.P. Gupta's first priority is to limit the number of casualties and to nurse fundamentally sound companies back to health.

It helps to be an experienced hand in the operating theatre. Mr Gupta spent three decades in project finance at Industrial Development Bank of India – where he has now returned as chairman - with an intervening stint as chairman of Unit Trust of India, the country's biggest mutual fund. His career is testimony to

the most powerful nexus in the Indian financial sector. the ties between the Reserve Bank, IDBI and UTI - the state-owned fund manager. which was recently in the news with problems at its flagship mutual fund, US-64. The Reserve Bank, India's central bank, founded IDBI, which in turn founded UTL, where it remains the biggest shareholder.

Mr Gupta has brought a touch of market know-how to IDBI, with plans to enter the secondary equity market

The new chief of and to launch software ven- IDBI to stick to its knitting. But his approach is generally cautious, and radical ninth biggest in the world change is not on the cards. There has been some restructuring and a new information technology

> "We will now consolidate," he says.

strategy.

Unlike many of his peers in India's banking system Mr Gupta remains wedded to the business of industrial loans and project finance and sceptical about the merits of "universal banking". "We would not like to get rug from involved with auto finance

consumer loans and that Under troubled kind of thing," he says. "The culture of a commercial bank and a development financial institution is differ

ent, very different." He is also reluctant to take over any of India's existing rates and that demand commercial banks although he is aware that Many industries are now there may be pressure for him to do so in future as lower than estimated when part of a long-overdue con-

solidation of the sector. "Merger makes sense if you have full freedom to financial support to those close down branches, which are going through a retrench employees, cut bad paich but are likely to costs." Mr Gupta says. "At prosper once demand recovpresent all these freedoms ers. are not available." Mr Gupta's intention is for

"We are an industrial development bank - the and our job is to provide finance to industry, says. But industry is in dire straits and demand for investment is scarce. "After liberalisation in

1991 a lot of new capacity came up," he explains.

'He is not about to pull the companies'

Demand was estimated on the basis of certain growth pick-up did not take place. operating at capacity levels these projects were approved." these

He says IDBI will give

Some analysts say this approach will perpetuate the equity stake in many pro- existing borrowers.

problem of non-performing assets, officially 10.1 per cent of the total and by many estimates a lot higher. But others argue that IDBI cannot allow huge swathes of Indian industry to go to the

The institution's exposure to the steel industry, for instance, could be greater than its net worth, some analysts estimate. Nursing companies back to health may be the only option.

Mr Gupta has a three-point test to determine whether a company is viable: does it have products of international quality; does it use globally competitive technology; and is it hig enough to compete? He says he will help such

will support our borrowers in their efforts to become globally competitive." That may involve acquiring new technology, economies of scale or new markets. For the next few years this type of lending - to fund restructuring rather than simple capacity addition - is likely to predominate. Mr Gunta says it will help fuel

industry.



consolidation in Indian jects to exert leverage.

It will lend up to 50 per IDBI will work with other cent of the value of an lenders to encourage compa- agreed takeover, and may nies to slim down, releasing act as a matchmaker cash flow to service their between sellers and buyers. debts, making use of its In many cases both will be

However, Mr Gupta will not finance hostile takeover "Acquisitions should take

place as part of broader restructuring and should improve shareholder value on both sides," he says.

### Merger speculation boost for bourses

**EUROPEAN OVERVIEW** 

holiday period and the against the US dollar.

Analysts said investors new record high in early per cent to 1,082.42.

THREE	MONTH EUR Coea					5-1	<u> </u>
	open	Sett price	Change	High	LOW	Est. voi	Open int.
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Dec	•	96.790	-	-	-	0	886
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DJ Euro Stx 50	3	35.36			305.30		3526.36	2419.23
MSC Europe			1238.51	1235.38	1315.55	906.59	1315.55	510.78

Surprise at the scale of the rises seen so far this week.

The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation led to a flurry of activity in calculated approach.

Surprise at the scale of the index of leading shares rose 30.11 or 2.46 per cent to 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to power ahead yesterday as merger speculation. The bullish mood in 1,251.32. The harrower FTSE continued to 2,924.12, and the bullish mood in 1,251.32. The harrower FTSE continued to 2,924.12, and the bullish mood in 1,251.32. The harrower FTSE continued to 2,924.12, and the bullish mood in 1,251.32. The harrower FTSE continued to 2,924.12, and the bullish mood in 1,251.32. The harrower FTSE continued to 2,924.12, and the bullish Industrial Average had set a countries rose 19.54 or 1.84

were coming back to the trading. The euro, meanmarkets strongly after the while, weakened slightly cations stocks were in the climbed €1.90 to €34.65, thick of things, and the sec- France Telecom was €2.20

although some expressed ces, the FTSE Eurotop 300 cent. News that Vodafone mesmann rose €2.20 surprise at the scale of the index of leading shares rose Group was in merger discus- €118.50.

big mobile units rose might be involved, share Among the European indi- tor index advanced 2.37 per higher at €76.20, and Man-

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Jan 6	_			_			
Mational & Regional Marketa	Garo ledex	Desp's	change points	Yield gross %	병	Total 1861 (Euro) €	
FISE Review 300	1261.32	+2.45	+30.11	216	5.07	1298.84	
FISE Eurotop 100	2924,12	+2.29	+65.58	219	0.18	1048.24	
FTSE EuroMid	1082,42 1187,53	+1.84	+19.54	1.92	0.00	1008.79	
FTSE Eurobild Ebloc	1274,94	+1,56 +1,70	+18.28 +21.34	2.83 2.20	90.0 90.0	1230.55 1301.93	
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Europe Ex-UK FTSE Eurotop Industry S	1332.05°	+1.68	+22.03	1.92	0.00	1358.97	
RESOURCES	871.33	+0.03	+0.23	3.27	0.00	911.17	
Mining	746.92	+3.11	+22.50	4.59	0.50	762.70	٠.
Of & Gas	843.69	_0.08	-0.71	3.23	0.00	864.12	
BASIC INCUSTRIES	1118.39	+235	+25.57	2.59	0.00	1140.14	
Chemicals Construction & Bid Mada	875.66 976.88	+1,64 +5,80	+14.16 +53.56	2.56 2.36	0.00	891.11 985.32	
Forestry & Pager	861.36	+0.20	+1.72	3.56	0.00	900.74	-
SEMERAL MIDUSTRUALS	1147.32	+251	+28.15	2.47	0.00	1171.73	
Aerospace & Defence Overstiled Industrials	849.08 1085.18	+1.18 +2.33	+9.90 +24.25	1.85 1.88	0.00 00.0	890.80 1089.95	
Bectronic & Bect Equip	1009.97	+3.84	+38.29	1,78	6.00	1015.48	
Engineering & Machinery CYCLICAL CURE GOODS	962,77	+1.16	+11,07	4.46	0.00	976.06	
Animobiles	1384.18	+4.44	+58,00	2.41	0.00	1401.71	ď
Homsehold Goods & Texts	1257,79	+4.87	+42.81 +58.43	325	0.00	1268.53	1
MON-CYC COMS GOODS	1297.74	+1.82	+23.20	1,39	0.00	1333,44	1
Severages	978.91	+0.56	+5.45	2.70	0.00	1000.05	
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FOR CYCLICAL SERVS	1343.84	+2.21	+29.06	1.50	0.00	1382.96	
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PHANCIALS	1399.95	+3.15	+41 85	2.38	6.00	1407.35	
Banks	929.05	+3.75	+33.61	3.14	0.00	942.26	
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information Tech Heroware	<b>855.56</b>	+1.94	+18.16	1.37	0.00	957.84
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centred on BMW, wh shares were €41 higher €740, and Ford of the US, other European auto sha benefited as well. Volks gen climbed €2.80 to €78 Peugeot was up €3 at € and Volvo was €0.30 hig at €22.30. DaimlerChry: the first fruit of a transat tic merger in the car ind try, jumped €5.70 to €92.5 Banking shares we strong again, with Fren

stocks soaring. BNP was €6.50 higher at €81.45 and Paribas rose €2.70 to €86.95.

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Uniterer	10/01	5.125	AAA	104.445	3.40	+0.01	-0.18	+0.31
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Depta	67/06	4.75	4	104,995	4.10	+0.01	-0.23	+0.36
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Seberit	04/07	10.125	m/a	108,946	2.31	+0.01	-0.22	+4.86
Cott Telecom	11/67	8.876	m/a	103.676	8.28	-0.10	-0.22	+4,85
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### **BUSINESS AND THE EURO**

Months of co-operation between fierce rivals ensured the euro got off to a trouble-free start

### smooth conversion greets Europe's new currency

The memo posted on the operations centre in Bournemouth, on the southern

sense of triumph

From: the techies and ops

Re: the euro We've done our bit. Now the

action is all yours." As trading began smoothly this week in the new European currency, it became clear that across the financial services sector, the techies and ops people had indeed done their bit, better even than they had dared

7 Months of co-operation between banks that usually compete fiercely, along with repeated rehearsals of the conversion process, paid off as the long weekend from the setting of euro conver-sion rates on Thursday December 31 through to the start of dealing on Monday January 4 passed off with scarcely a hitch.

Most banks found that any problems could be dealt with easily by hand, and many were able to finish the entire process of converting bank balances ahead of schedule.

out to get through in a day wall of Chase Manhattan's and a half, leaving space to go back and rerun if anything went wrong. In the coast of England, conveyed a

end, we came in four hours inside the schedule." said Bill Grant, Emu project director at Citibank, the banking arm of Citigroup, the financial services con-

"We had a few glitches where we took a few minutes to think about what to do, but I can't even think of anything I would describe as a problem," said Joanna Meager, at Salomon Smith Barney, Citigroup's investment banking subsidiary.

"Everybody involved did precisely what they were supposed to do, when they were supposed to do it." said Susan Kirchhoff, who headed the Emu team at J.P. Morgan, the US wholesale bank.

Even Canadian banks appeared to have handled the conversion smoothly. despite having to contend with 50cm of snow, which prevented many staff from making it into the office.

The smoothness of the conversion weekend was helped by relatively low volhelped by relatively low vol-umes of transactions in the tral Bank to link national week between Christmas "We had worked this thing and New Year - lower even

peak period. As traders and treasurers started firing live euro bullets this week, rather than the "when from before the new currency's official birth, volumes

remained moderate.

Target: how the settlement

system works

Examples of payment

Not only the currency was new on Monday morning. tism of fire for Target, the high value payments system payments systems from all 15 European Union coun-

tries, and for the Euro Banking Association's new euro clearing system.

little bit nervous about the EBA system - not because of any substantial problems during testing, but simply because the expected volumes of euro payments clearing through the system were so much higher than the limited quantities of ecus the EBA has until now been

But the system has

ited the required collateral payments on time on Monday morning and settled their payments successfully.
Unlike RBA, which is a net

system in which banks accuowe each other during the day and settle up the net bal-ances at the end of the day, Target makes gross payments in real time. If Bank A owes Bank B €100m at 10am, and Bank B owes Bank A the same amount at 3pm, both payments will go

ments can, therefore, go through Target from the pening time at 7am Frank furt time onwards.

It also began smoothly, but ran into bottlenecks towards the end of the day, when large volumes of payments stemming from national net payment systems started to flood into the system. Target operates as a hub, linking together each country's own real time gross settlement system, so problems in one country can affect the centre even if they do not have any real impact

On Monday, the difficulties were fairly widespread, and Target had to announce three half-hour extensions to its normal closing time of 6pm Frankfurt time to ensure everybody's payments got through. On Tuesday, a one-hour extension lems in the Portuguese pay-

worked smoothly so far. All through, where a net system time, and had cau 62 clearing members depos- would tot up the two pay- knock-on difficulties. time, and had caused no

that happens I think we can still pat ourselves on the back," said Joost Kuiper, to update valuations.

ABN Amro in Amsterdam. Other segments of the European financial system appeared to have coped well with the transition. Cedel and Euroclear, the two securities depositories which clear many international bond and equity transactions, both came through the weekend with flags flying high, releasing converted

on other national systems. ahead of schedule.

ments system. ECB officials insisted the able teething troubles. Private sector bankers said the delays had not prevented them from starting their

senior vice president for treasury and fixed income at

about proclaiming victory before the infrastructure has proved that it can stand up to real volumes. The first euros traded in the spot foreign exchange market only came through for settlement last night, and securities trades from Monday will only start to settle from balances to clients well its work in co-ordinating

preparations for the euro custodians conversion in the capital

'We had a few glitches where we took a few minutes to think about what to do, but I can't even think of anything I would describe as a problem. Everybody involved did precisely as they were supposed to do'

appeared for the most part to have coped with the conversion process, though some fund managers complained that their custodians were slow in giving details of updated account balances. also encountered difficulties. In Germany, some on-line

markets, David Clementi. deputy governor, expressed satisfaction as the conver-

thing on Monday discovered

their accounts showing at

did not yet have live prices

Bankers are still cautious

At the Bank of England,

credited by many banks for

"Today has been a huge milestone. There are further milestones to come but we



### **Banks** confront hard choices on handling euros

By George Graham, Banking Editor

The birth of the euro has launched a cutthroat competition in the payments market, not only between clearing banks but also between payments systems.

At the systems level, each country in the European Union is obliged to have a their feet over collateral real-time gross settlement system connecting to the European Central Bank's Target system.

Many countries also operate end-of-day net payment tional level the Euro Banking Association, which cleared Ecus, is running a net system that is expected to be a major contender.

Estimating payment vol-umes in euros has been difficult, but, on the basis of national currency payments, a Boston Consulting Group pady last year estimated raffic in the 11 euro-zone countries at around 322,000

high-value payments a day. The capacity added in anticipation of the new currency by Germany's EAF, the UK's Chaps Euro. France's TBF and the EBA system - just four of the biggest channels competing for euro transfers - could handle another 744,000 payments

Banks do not yet know which of these systems will end up as the dominant channels, so many of the larger clearers have signed up for half a dozen systems to cover their bcts. This is costly, however, not so much in terms of membership fees and running costs as in the although these figures indiadded difficulty of managing iliquidity. Banks will soon want to narrow their

collateral, usually in the Société Générale, Bankers Each bank has to put up form of government securities, in each of the systems over by Deutsche - Bank of in which it is participating America, Midland and Barto cover its outgoing pay clays. Many who fail to ments. Any glitches could make the top 10 face stark result in a bank running decisions over persevering.

EBA - and having to borrow having surplus euros in its national RTGS system.

While it is easy enough to switch cash around the continent through Target, it can be more complicated to ve collateral. Some central banks are still dragging transfer arrangements; there is a suspicion among some bankers this is a deliberate ploy designed to keep liquidity within their national

money. market. There are also far too many banks competing for payments business. The euro sharply reduces the need for large banks to maintain correspondents in different euro-zone countries and also opens the door for corporate clients to slash the number

of banks they deal with. Since the D-Mark accounts for around half of all payments in the euro-zone, Deutsche Bank and possibly Commerzbank of Germany are expected to emerge as market leaders in terms of volumes cleared. But a number of US banks also appear well-placed.

Broadcasts on the Swift interbank message system of Standard Settlement Instructions, in which banks and broker-dealers tell the market where to send any euro payments they are owed, suggest Chase Manhattan so far leads the field, featuring in 27 per cent of SSIs issued up to December 23.

Deutsche follows with a 19 per cent share, and Citibank lies third with 6 per cent cate only numbers of banks issuing SSIs and not volumes of euros.

The top 10 is rounded out by Dresdner, Commerzbank, Trust - soon to be taken

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Solutions for a small planet

# Successful bund auction lifts Europe Before the auction yesterday morning, the heavy supof OAT bonds maturing in for instance, the German log rally in US equities. CME sees 'solid' reading CME sees 'solid' trading

By Rabut Jacob in London and John Labate in New York

A successful German bond auction pushed European markets higher yesterday. Germany sold €7.3bn of 10-year bunds at a yield of 3.71 per cent. The auction was subscribed more than

They sold about €8bn and got £25.6bn. The investors' attitude is 'Get them while you can'," said Andrew Roberts, fixed income strategist at Merrill Lynch.

The auction was seen as an early bid to establish the German bund's credentials as the benchmark yield

ply expected this week loomed as a damper on prices. Some €21hn in euro bonds will have been sold by governments this week. Spain also saw strong

"The auctions would have been a big test for the markets anyway. The low levels of yields and low levels of liquidity have made them a stiffer test," said Philip Tyson, bond strategist with HSBC Markets.

Thus far, the test has been passed with ease. The strong demand this week hodes well for the French government's auction on Thursday. It will

2009 and 2029.

France's offering, coming so soon after Germany's, has inevitably stirred up the debate over which market will establish itself as the demand when it sold €2.2bn benchmark yield curve for worth of three-year, 10-year euro debt. Some observers saw yesterday's auction as and 30-year bonds yesterday. further proof that Germany

> "The French authorities have tried a lot harder, but I don't see how France could take over as the benchmark. unfair as that might be." said Sally Wilkinson, senior on an interest rate cut on economist with Daiwa

remains clearly in the lead.

although France has been

w us dollars

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nated offerings by Malaysia

and Thailand and by better

than expected current

account surpluses in South

**BOND FUTURES AND OPTIONS** 

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Korea and Thailand.

New international bond issues

of OAT bonds maturing in for instance, the German market boasts much higher overseas participation.

"Germany is the cornerstone in holding Europe together, politically and economically. The bund will remain the benchmark," Ms Wilkinson said.

UK gilts ended slightly lower, with the 10-year gift 994, yielding 4.658 per cent. future falling from 119.25 to notably light, and the mar- said Dennis Hynes, chief ket appeared to be holding investment strategist at its breath as it waited for the Bank of England's decision Thursday.

US Treasuries were mixed Ms Wilkinson argues that in midday trading. Widespread selling, which hit the more innovative and was the market earlier in the week.

Jul 2009 0.325R Jen 2007 0.30R Jun 2002 0.1675R Jen 2003 1.00

By early afternoon the 30year bond, the benchmark for long-term interest rates,

ing 5.198 per cent. Among shorter term issues the 10-year note was down & to 99%, yielding 4.773 and the two-year note was down 🛦 to

was & higher at 100 , yield-

"The stock market and the close at 119.16. Trading was dollar are everything here," R. W. Pressprich in New York.

> An easing of hedging in the corporate bond market and an improvement in the dollar's value against the yen were also seen as positive factors for bonds.

# in euro

By Mikki Tait in Chicago

The Chicago Mercantile Exchange, one of the two big US futures markets, yesterday described trading in the new euro currency futures that started this week as "solid". It said it had seen respectable liquidity and interest from a broad spectrum of customers.

The CME said 2,926 contracts were traded on Monday. The vast bulk of those, 2,667, were handled through the pit, in regular trading hours, with just 259 contracts trading electronically, via the Globex system, on Sunday evening and early Monday morning.

On Tuesday, volume dropped to 2,100 contracts, with open interest standing at 2.191 by Tuesday's close. Scott Gordon, the CME's chairman, said the exchange had been impressed by the volume, with Rick Kilcollin, president, adding that the activity had been stronger than many expected.

The comments came as traders debated what the likely level of sustainable business in the new contract would be. Despite the official enthusiasm, volume in the two opening days was still modest compared with some more established contracts.

The current contract eflects the value of the euro in US dollars and is sized at €125,000. The minimum price increment is \$12.50. Next week, the exchange plans to add trading in three crossrate contracts using the euro - the euro/British pound, the euro/Swiss franc and the

euro/Japanese yen. These will also be sized at €125,000 and will be quoted and settled in terms of the counter currency (such as British pounds).

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# Jous call the take pounding

Japanese stocks are being pounded by high Japanese government bond yields, negative corporate growth prospects and an appreciating yen. From its 1998 high of 17,352, the Nikket 225 index has fallen 23 per cent.

The decline is not surprising. Among non-financial companies in the first section of the stock market, pretax profits, excluding exceptional items, are expected to fall 42 per cent in the year to March, said Garry Evans, at HSBC Securities Japan. Prospects for next year are

bleak, especially since the yen's recent rise to Y111 to the dollar has hit exports. However, the most serious and unexpected problem is the rise in bond yields. On December 30 the 10-year JGB yield reached a 15-month

high of 2.01 per cent. Fear that oversupply in the government bond market may push ylelds even higher has had two effects. First, it has raised the cost of capital. Easy access to low-cost capital, a hallmark of the Japanese corporate system, may be a thing of

access the bond market. Second, the rise in the yield on government bonds has made equities less attractive relative to bonds.

the past Indeed, some com-

panies, whose debt has been

downgraded, can no longer

"High interest rates usually occur when there is optimism for growth. Now we have rising interest rates and a pessimistic growth outlook, and the market is being hit all around," said Craig Chudler, at Salomon Smith Barney.

High interest rates are most damaging to highly geared sectors such as airlines, construction and real

"Higher bond yields hunthe airline companies. which, with heavily levered balance sheets and weak cashflow, are interest rate. sensitive," said Laurent del Grande, at Dresdiner Klein-

The yield on the 10-year JGB has climbed by 135 basis points from its year low of 0.695 per cent on September 17. Since then, the airline sector has underperformed the market by 16 per cent. Performance in the highly geared construction sector began to decline in mid-October. Banks, which have substantial bond portfolios, began to decline in early December and have underperformed the market

since the close of 1998. Higher government bond yields have also hit shares of companies traditionally bought for their yield.

"The increase in bond yields over the past few weeks has negative implications for real estate businesses which require a higher yield to make them attractive against other asset classes," said Mr del Grande. Since its high in November, the property sector has

underperformed the market by more than 15 per cent. Utilities, however, have outperformed the market, with regulated earnings and a yield of 2.2 per cent supporting the sector.

With the stocks of export ers suffering from the high yen, and domestic groups enduring the worst recession since the post-war recovery. the outlook is grim.

**ZAW 2475** 

A MONEY RATES

### **Philippines** steals the show

**NEW ISSUES** By Edward Lace, Capital Mariosts Folion

The Philippines yesterday stole the show with the launch of a \$1bn offering ~ its largest ever on the international bond markets.

Interest in the two-tranche issue, which will be priced today, to some extent assuaged fears about oversupply in the investment has just exploded this week." grade dollar sector.

in the space of just three trading days, almost all the world's largest borrowers, including the World Bank. the European Investment Bank, KfW, Dresdner Bank, Deutsche Bank, Fannie Mae and Ford Motors, have tapped the dollar sector. One or two of these deals have been significantly outperformed by the swaps market, which has tightened consid-

WORLD BOND PRICES

**BENCHMARK GOVERNMENT BONDS** 

erably this week.

In addition, European institutional investors appear to be pre-occupied with the launch of the euro while Jananese investors are understandably worried about buying dollars with the yen having appreciated so steeply this week.

"This is more than the market can digest," said one official. "The global climate hasn't changed that much since November vet volume

The Philippines, at least, could count on rarity value with the first dollar offering from south-east Asia since the Philippines came to the market last April and the first big deal since before the crisis. Appetite for the deal split into 10-year and 20-year tranches - was enhanced by the growing realisation that there will not be a deluge of paper from Asian sovereigns, as was widely expected a few months ago.

Much of the expected supply has been pre-empted by than people had feared so Reconstruction and Developthe provision of Japanese investors are keen to buy ment performed well. into a bond with this kind of guarantees for yen denomi-

Warburg and MSDW.

112.32

Low

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Elsewhere, Tuesday's

(f)R 99.25R

Tyco, the US industrial yield," said an official at group, issued a two-tranche J.P. Morgan, joint lead with

dollar bond, while BNG targeted the European retail investor base with a \$200m euro-linked 200m zloty deal offering.

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Tal	08/25	7.00	A+	101.8869	6,84	+0.03	-0.01	+1.64
!	05/08	9.00	366	114,7323	5,92	+0.04	+0.03	+1.19
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C	05/07	8.75	AAA	120.7557	5,60	+0.04	+0.04	+0.57
: One	08/02	7.25	A	105.2743	5.59	-0.04	+0.17	+5.59
Ra	01/18	5.95	A-	96.4164	7,30	+0.05	-0.20	+210
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Mart	05/02	8.75	M.	105.2500	5.02	+0.05	+0.10	+5.02
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A	03/00	7.50	N/A	102,7747	5.02	-0.01	+0.01	+0.60
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a indices	Wad		Accross		Total	Dura	doa	%		Wed	Day's
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Up to 5 years (18)	121.99	0.64	1.80	0.37	1198.40	2.41	4.67	34.38	1 Up to 5 years (2)	227.20	-0.09
5-10 years (11)	172.88	-0.01	2.04	0.02	1343.93	5.93	4.40	29.12	2 Own 5 years (S)	257.32	-0.21
10-15 years (7)	188.36	-0.03	211	0.00	1472.42	8.77	4.40	13.47	3 5-15 years (5)	241.76	-0.16
5-15 years (18)	177.38	-0.02	2.06	0.01	1380.64	5.88	4.40	42.59	4 Desc 15 years (4)	272.21	-0.26
Over 15 years (4)	234.92	-0.28	1.76	0.00	1595.91	11.87	4.39	22.24	5 All stocks ((1)	252.03	-0.19
irredeemables (4)	331.64	-0.47	2.42	0.00	1972.22	23.85	4.53	0.78			
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INTERNATIONAL BONDS

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#### **CURRENCIES & MONEY**

### Flows call the shots in thin markets

MARKETS REPORT

MK & Transference . The Walter

Currencies were buffeted by capital flows in the currency a shove, they added. markets yesterday as liquid-

a painfully slow rate. by a penny against the euro, ing session and one late on before losing most of its in London hours. gains later in the European

to a weak service sector ble to further falls. business survey released yesterday in the UK, most market participants said it the euro against the dollar reflected a few large corporate orders going through a

thin market. The only fundamental news of the week which could really affect sterling would be an unexpected

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lysts said. With the money markets pricing in a 25 basis point cut, only a larger reduction, or a no-change decision, could give sterling

Tuesday's big mover, the ity continued to increase at dollar-yen rate, reversed some of its sharp downward Sterling had a superficially movement. The dollar made exciting day, rising early on two attempts to break up by more than a cent and a towards the Y113 level, one the problems with the Tarhalf against the dollar, and at the end of the Asian trad-

The dollar closed in London at Y112.6, higher than But despite attempts by the previous day's close of some to link that movement Y1116 but looking vulnera-

ing ye	esterday	, as i	ndion Transfer
<b>■</b> P0	UND IN	NEW	YORK
Jam 6 Sport	-Latest 1,6530		1.6550

circulated of settlement problems affecting European central banks.

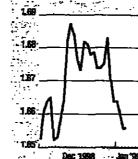
The euro dropped over a cent against the dollar in a few minutes shortly after the

Yesterday was the first day that settlement of trades from the beginning of the week took place, and after get settlement system earlier in the week, the markets were alert to the possibility of problems in the clearing

Earlier, during European dealing hours, the euro continued to have a quiet and uneventful start as far as ■ There was a sharp drop in trading rather than settlement was concerned. The currency again took the dollar's lead against the yen, rising to Y132.0 on the day. Against the dollar itself it drifted down to close slightly lower at \$1.172.
Analysts said it was still

far too early to draw any

Against the tiolier (\$ per.£)



from the behaviour of the

new currency. Steve Barrow, currency London, said that volume in the foreign exchange markets had barely picked up from the beginning of the week. "Many traders are continually being surprised by how much prices are moving when they put rela-tively small deals through,"

normally bat an eyelid are now having quite an effect."

The thinness in some

pairs, especially those involving the euro, meant London at \$0.6292, up from that some traders might go through one currency to get to snother, he said. Someone with a sterling-euro trade to do might have to do it via

this volatility should decline. The expected volatility in the euro against the dollar in the near future, as tions. implied by option prices, has

the week. But in the longer term, Mr euro to fluctuate more against the dollar than did the D-Mark.

■ The Australian dollar was the pick of a crop of second-

213,690 3,4220

0.3770

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which the market would not new year, including the Canadian dollar, Swedish krona and Norwegian krone.

Yesterday the Aussie rose against the dollar, closing in around \$0.61 at the beginning of the year. Traders said that large US

banks with strong links to hedge funds were believed to sterling-dollar and dollar- have bought around A31bn yesterday, driving the cur-Mr Barrow said that as the rency higher. Stories also currency beds down, some of circulated that UBS might make a bid for Macquarie Bank, one of the smaller Australian financial institu-

James McKay, global marfallen since the beginning of kets strategist at the Commonwealth Bank of Austra-Barrow said he expected the rise in the Aussie could be caused by the unwinding of a large short position in the currency.

encouraged by the recent bounce in commodity

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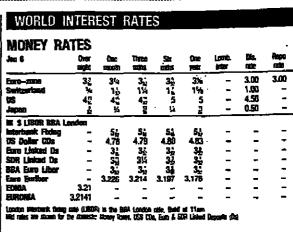
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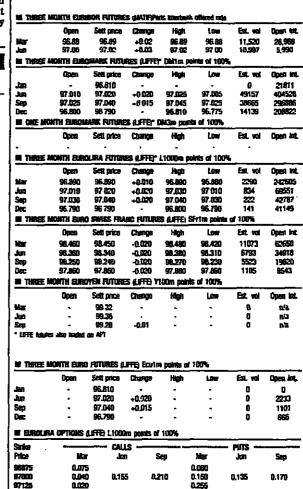
-0.3235 +0.0065 -1.675 -0.0895 +265.9 +1.8400 -0.2880

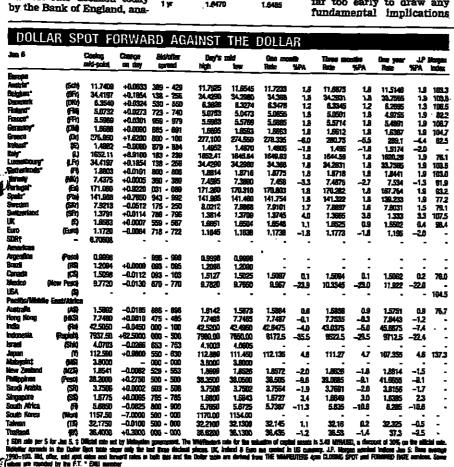
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**EXCHANGE CROSS RATES** BFr DKr 4800 5.463 2600 2.959 2852 3.360 990.0 1.127 2459 2.798 100 0.114 4.386 2.905 2.376 1.574 2.698 1.767 0.905 0.599 2.247 1.488 0.091 0.061 1.952 1.058 1.291 . 0.403 1 0.041 497.0 269.2 305.6 102.5 254.6 10.35 4.848 2.626 2.982 1 2.483 0.101 23.01 12.47 14.15 4.747 11.79 1.754 0.950 1.079 0.382 0.898 0.037 4125 10 11.25 3.808 9.456 0.385 223.4 253.7 85.07 211.3 8.593 54.17 61.50 20.63 51.22 11.71 18.29 4.457 11.07 2.170 2.464 0.826 2.052 0.083 0.888 0.357 2.244 0.904 0.976 0.393 1.175 0.473 2.107 0.848 1.210 0.487 2.764 1.113 1.105 0.445 1.669 0.572 1.482 0.597 1.956 0.788 3.935 90.97 10 230.0 4.348 100 5.239 120.5 9.389 216.0 5.393 124.0 12.32 283.3 4.926 113.3 7.438 171.1 6.606 151.9 8.717 200.5 878.6 2221 965.8 1164 2096 1198 2736 1094 1652 1467 1936 4.213 10.85 4.631 5.580 10 5.744 13.12 5.247 7.921 7.036 9.264 EMS EUROPEAN CURRENCY UNIT RATES LONDON MONEY RATES 361/01 25556 22542 12271 8808 94,840 94,810 94,960 94,580 94,930 185572 179288 155324 131438 115482 94,390 94,770 94,900 94,620 94,890 0.005 0.145 0.220 0.306 0.400 0.505 0.160 0.260 BASE LENDING RATES Financial & Gon Bank &.00

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**BP**Amoco



J.P. Morgan is pleased to announce the start of trading in the American Depositary Receipts (ADRs) of BP Amoco p.l.c. BP Amoco p.l.c. is the merger of The British Petroleum Company p.l.c. and Amoco Corporation.

BP Amoco p.l.c. ADRs now trade on the New York, Pacific, Chicago, and Toronto stock exchanges under the symbol BPA.

For more information on the new BP Amoco p.l.c. ADRs, visit www.adr.com, J.P. Morgan's central source for timely worldwide ADR market intelligence and investor information.

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**JPMorgan** 

January 1999

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### PT Timah may smelt foreign ore

although Malaysian experts that said Timah's lack of experi-Expectations Indonesian tin output will be ence in smelting on commisflat this year are prompting PT Timah, south-east Asia's biggest tin miner and smelter, to consider smelting Smelting and Thaisarco rely foreign ore. The state-owned company currently smelts only Indonesian ore.

Timah's production this year is expected to remain little changed from last year's 41,000 tonnes. Output has fallen from the 1997 level of 51,000 tonnes as it concentrates on mining lower grade ore to conserve high-grade sites, a move made possible by the devaluation of the Indonesian currency.

The price of tin has tripled in rupiah terms to Rp39,000 (\$5) a kilogram because of the weak rupiah, enabling Timah's net profits to soar by 350 per cent year-on-year to Rp100bn in January to September 1998. Almost all Indonesia's tin is exported.

A Timah official, who says smelting foreign ore is "a possibility", declined to say from where it might source supplies. Malaysian experts said Timah might seek supplies from Australia. It owns part of the 13,000 tonne-ayear Kobatin smelter controlled by Australia's Renison Bell. Kobatin, located in the vital Indonesian mining area of Bangka island, produces about 10,000 tonnes of

tin a year from local ore. Bangka is capable of dealing lts materials come mainly with 50,000 tonnes of metal a year, but produces about 80 gal and Australia. per cent of that.

any moves by Timah to Escoy shut its 100-year-old smelt foreign ore would Corporation and Thailand Smelting and Refining Com-

region's other smelter,

its supplies mainly from Peru, Australia and Portugal. It also smelts all of Malaysia's output, which is likely to increase slightly to

at close to capacity and

because Russia and China have not been sending much to the region for smelting. Also, Australian output has been flat at about 10,000 tonnes a year. Thai miners, put from 1,000 tonnes a year, have had problems getting

land's Phuket island, is running at "near to capacity", says an official at Escoy group in Malaysia. Escoy and Amalgamated Metal Corporation of the UK are

The refurbished plant is capable of producing about Timah's smelting plant in 15,000 tonnes of metal a year. from South America, Portu-

The number of smelters Because of tight supply, has fallen to three after plant on the Malaysian island of Penang in early 1998 partly on environmental grounds and partly because pany (Thaisarco), the of lack of labour.

### Outlook improves for Pakistan wheat of Oil prices

By Farhan Bokhari in Lahore

The outlook for Pakistan's wheat crop has improved with the arrival of the first widespread rains across the Punjab province after an unusually long two-month dry spell.

Winter rains are important for wheat, falling when the water level in dams and reservoirs is low, and farmers depend on rains to irrigate their fields.

Officials with the provincial government in Lahore has tried to narrow its interhave reported rainfall across national trade deficit. Part of

tion at Mombasa is any-

thing to go by. Kenya's tea

sector may justifiably feel

Strong demand from

Egypt, Pakistan and the UK

pushed prices up by 5 to 20

US cents a kilo from Decem-

ber - an unexpected boon

following a year when pro-

duction exceeded all expecta-

tions, although slightly

below similar prices at the

Heavy rains due to the El

Niño weather pattern helped

Kenya's estates and small-

holders reap 290m or more

tonnes of processed tea in

1998, well above predictions

Tea brokers say the rela-tively small price differential

between best and lower

medium grades tea iast week

about 30 cents for Pekoe

Fannings 1 grade tes indicat-

ing less discrimination

among buyers - points to a

year of strong demand

ahead. If the sharp decline in

Kenyan T-bill rates precipi-

tates a decline in the shil-

with a concertina of only

of 280m to 285m tonnes.

beginning of last year.

rather pleased with itself.

almost 80 per cent of the wheat crop is grown.

The agriculture ministry in Islamabad has set a production target of 19m tonnes this year for the country, up slightly on last year's production of 18.7m tonnes.

The size of this year's crop has added significance for Pakistan. Faced with economic problems after the west introduced economic sanctions because of its nuclear tests, the country

Ray of hope for Kenya in tea

In a country where good news is scarce the year's first tea sales

in Mombasa have seen encouraging results, says Mark Turner

Tea Brokers in Mombasa.

If the year's first tea auc- Norman Wilson from Africa cent of the country's produc-

news is scarce, the results

provide a much needed rav

of hope for the Kenyan econ-

omy. Over the past five

years, the country has sur-

passed Sri Lanka as the

world's premier exporter,

and now finds itself in the

enviable position of largely

That is why analysts are

not overly concerned at the

month drought, from Decem-

ber to early March, which is likely to hit production but

(assuming Sri Lanka and

other competitors do not

raise prices. In 1997, a severe

deficit of almost 15 per cent,

but prices rose by about 50

per cent, more than offset-

ting the shortfall.
"If the rains fail in March,

the crop will fall away fast.

Then we will have another

mini-boom," said Mr Wilson.

comes when the Kenyan tea

sector is unsettled, as the

country liberalises its small-

holder sector.

Ironically, the good news

drought led to a production

prospect this year of a three-

determining world prices.

cutting commodity imports. especially wheat, to save preclous foreign exchange.

Although exact estimates are still unclear, businessmen and officials say Pakistan may import between 1.5m and 2m tonnes of wheat in the next 12 months to meet domestic demand.

While the rainfall is expected to irrigate wheat fields at a crucial time, some experts say part of the crop may already have been damaged.

tion, was dominated by the

opment Authority - an

opaque organisation influ-

enced by high-level politics.

Over the past few months,

however, smallbolders have

been granted an increasing

degree of control over their

businesses, and are begin-

ning to demand these

changes be put into practice. Notably, they are calling

for more say in the running

ing into their own hands.

Kenya's power-brokers, the

change is, on the surface.

welcome and may improve

However, brokers and tea

analysts are worried that, in

practice, people who are

very good at growing tea

will find marketing an alto-

gether different prospect. If

the KTDA - which pays

farmers 70 per cent of the

sale price - private buyers

may begin to approach farm-

915 907 4,098 54,552 936 928 743 28,922 953 948 59 12,916 971 968 245 29,302 955 990 152 16,524

1396 1373 7,392 36,180 1416 1397 1,363 18,170 1436 1420 246 8,513

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■ SUGAR "11" CSCE (112,0000bs; cents/ba)

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VOLUME DATA

INDICES

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Jan 4 134.76

114

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III COCOA (ISCE (10 loanes: S/tones)

efficiency.

In a country where good parastatal Kenya Tea Devel-

"Some damage to the crop, especially in the 'barani'

mad, one of the country's to last year's "would be very most respected agricultural good". scientists. "But in canal-irrigated areas, where most of

the crop is grown, the rains would mitigate the effects of the drought." Officials said only 10 per cent of the crop is grown in the "barani" areas, which

national output insignifi-Mr Muhammad, however,

makes their impact on the

said that although it was still too early to assess the ers.

much of the province, where that effort has gone towards [rain-fed] areas is irrevers-

Officials say the crop needs at least 5mm of rain next week, and between 10mm and 30mm in the next few months, to meet needs.

In spite of the latest relief, experts say Pakistan's wheat crop suffers from a range of structural problems, such as delay in sowing, inefficient cultivation methods and poor compliance with recommendations for using fertilis-



of their factories - which they now mostly own - and Armed with a sophistiare beginning to explore the possibility of taking marketcated appreciation of world markets, and aided by a decline of prices that less niven the potential for competition in Mombasa Corruption that the KTDA used to offer

could precipitate, unscrupu-lous dealers might pay below the real value, and farmers could be short-changed. The changes have also prompted uncertainty about KTDA plans to build another

eight factories, to help create processing capacity of 300m tonnes a year by early next decade. Financiers such as the CDC, facing an unclear control is taken away from future, are waiting before committing themselves. Mulinge Mukumbu, a Ken-

yan agricultural economist who specialises in tea, adds that Kenya faces another big challenge. The increase in

production has coincided with market stagnation or decline in Kenya's three main purchasers, the UK. Egypt and Pakistan, which account for more than 80 per cent of exports.

As countries such as Uganda and South Africa start to push for the same markets. Kenya will need to diversify its export base.

"Since the 1960s, Kenya has focused on increasing production," said Mr Mulinge, a task at which the KTDA was successful. "But we should now focus our attention on marketing, to Sudan, Somalia, the Middle East and even Russia, which will be looking for new suppliers as India's internal consumption grows."

### [rain-fed] areas is irreversible," said Ameer Muham-achieving an output similar achieving an output similar **US** stocks

MARKETS REPORT 8v Robert Corzine, Gillian

on news of a hefty fall in crude stocks in the US in the week to January 1. Brent Blend for February delivery was up 24 cents to \$10.77 a barrel in late trading on London's International Petroleum Exchange.

For months the markets have been seeking evidence. that surplus world crude stocks are beginning to fall, especially in the US, the

world's biggest oil market American Petroleum Institute figures showed stocks were drawn down by more than 14m barrels over the week, although inventory

levels remain high. It was the turn of tin to touch a new five-year low on the London Metal Exchange. as the three-month price dropped below \$5,000 a tonne. Traders said funds. which have hitherto concenals, finally turned their

trated on selling down met-Analysts who base their decisions on chart movements argue that the price could fall to \$4,500 a tonnebefore it finds a new support

level. The rise in stocks over the past two days provided investors who concentrate on fundamentals with another reason for gloom. The price picked up from its \$1,960 low to close at \$5,025.

On the bullion market, silver closed almost 5 per cent higher at \$5.15 an ounce, after hitting the \$5.22 target set by technical analysts. Platinum closed up nearly 8 per cent at \$360 an ounce.

March cocoa futures closed £4 higher at £911 a tonne on the London International Financial Futures and Options Exchange. March robusta coffee fell

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after a bout of selling to end

down \$75 at \$1,747 a tonne.

#### COMMODITIES PRICES BASE METALS

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Previous 1212.5-13.5 1220-21	Close	1224.26	1228-30
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Next close			
Depth left	AN Official	1216.5-17	1222.5-23
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Mainstrain Alloy (S. per trans)			
Total calls	Total daily turniver	98,767	
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High-low	Close	1020-25	
AM		1015-20	1045-50
Rech close   1050-55			
Design   Color   Col		1025-30	
Total daily terrover   1,183			1050-55
IN LEAD (\$ per torme)			
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Memb close			
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Total day harover   8,376		67 CDC	402-9
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Premous         3910-20         3980-85           High Now         3980-85         3980-80           MAY CEndral         3880-85         3950-80           Kett clase         2945-50           Open st.         65,658           Total daily banouer         16,058           SIL TRIL (\$ per tunner)         5015-25           Close         5015-25         5010-15           Previous         5010-20         5010-15           Hops Dow         5040/4960         4985-90           AMI Orbical         4995-5000         4985-90           Ann Close         5020-25           Spen st.         20,773           Total daily furnover         12,895		<u> </u>	
High/low   3880-85   3990-80   3880-85   3990-80   3880-85   3990-80   399			
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Serb clase   3945-50   Open st.   65,658   Total daily brancer   16,058		othe er	
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64 55 +0 66 64.65 63.70 287 1,652 64 90 +0 65 65.05 64.10 94 2,552

Open od Total daay tomogr

65.30 +0.90 E5.50 64.50 9.182 45.767 65.75 +0.60 65.15 64.70 230 1.887 66.15 +0.55 66.30 65.60 642 6.057 66.00 +0.55 65.80 65.80 152 1.398 PRECIOUS METALS

क्र १५ का ब 202.70-208.90 201.70-207.00 Lines Life Man Sold Landing Rates (Vs USS)

sion and in dealing with "dirty" foreign ore could himder its efforts. Malaysia on foreign ore, which is mostly low to medium grade. Timah has been smelting mostly good grade material. Malaysia Smelting, with production capacity of 26,000 tonnes of metal a year, gets

6,000 tonnes this year. The company is smelting

relies on its 110-year history to secure contracts. Supply is tight, partly

funding from bankers. Thaisarco, located on Thai-

the new owners of the plant.

Precious Metals continued

355.6 -1.5 360.0 358.5 58 371

318.95 -9.80 339.00 315.20 245 2.867 310.95 -7.80 314.00 314.00 2 61

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Sett Day's price change 18th Low vol int 99.00 +0.75 99.50 99.00 12.291 25.695 09.75 10.275 99.75 10.379 30.712 102.25 - 103.00 101.75 2.231 14.726 103.75 -0.25 104.25 105.00 277 4.864 107.75 -0.25 108.25 107.25 414 11.347 28.000738.101

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Inter change High Lew Vol inter 1.920 -0.055 2.010 1.905 23,863 45,210 1.920 -0.056 2.000 1.905 8,615 28,227 1.910 -0.041 1.975 1.995 8,163 20,929 1.930 -0.802 1.980 1.930 1.930 13,226

36.75 +0.40 36.90 36.45 13,107 34.275 37.95 +0.42 38.05 37.70 2.874 12,308 40.90 +0.94 11.55 40.85 821 14.439 41.80 +0.24 42.05 41.80 966 12,350 42.55 +0.35 42.55 42.55 427 9.894

M NATURAL GAS PE (1,000 Berns, perce per Berns)

**801.0 COMEX (100 Tray 02.; S/tray 02.)** 

# PLATINUM MYMEX (50 Troy oz.; \$7roy oz.)

ME CRUDE OIL NYMEX (1,000 barrels, Scharrell

ENERGY

#### ling, as some analysts expect, producers can expect even higher profits.

"1999 is going to be an excellent year for Kenyan and East African tea," said

**GRAINS AND OIL SEEDS** 

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23.59 +0.26 23.73 23.52 23.67 2.323 23.55 +0.22 23.99 23.65 13.955 55.073 24.07 +0.22 24.00 23.95 2.605 13.293 24.22 +0.17 24.35 24.18 1.893 17.648 24.29 +0.19 24.37 24.25 900 4.602 24.32 +0.14 24.50 24.32 519 3.761 24.32 +0.14 24.50 24.32 519 3.761 25.33 46.93 24.93 25.93 25.93 26

PULP AND PAPER

Sett Day's orice change

All lateres data supplied by CMS.

Nuts and seeds Prices from Kenidos Lordon S per m/l. transem plasachies 28/ 30 raw (in shell) naturally opened fround; crop 1998: 28/30 at \$2,750, CFR MEP, 20/

22 at \$3,550 CFR MEP. Turkish hazehou 13/15 and 11/13, erop 1998 indicatio \$4,250 CFR. Market unstable, no long-ter

13/15 and 11/13, crop 1998 indication s4,250 CFR Market unstable, no long-term offices, Indian cashews crop 1996 CFR from top shippers, WG20 at \$6,050, W240 at \$7,150. Market increasing, US atmends standard 5 per cert crop 1998 at \$2,750. 18/20 NPS at 4,900 at FAS, Actual crop 480m lb, indication for crop 1999 at 3,380 FAS for \$1.5 per cent. Moleoviem washauts crop 1998 offered as 8ght halves and pieces at \$3,550 CFR MEP (daty paid).

NO PULLPEX CHEEX (USS: 24 arr day tous)

330.50 +7.00 330.50 327.00

For a long time, the development, processing and marketing of smallholder tea, which accounts for 66 per

ers directly, bypassing the Mombasa auction altogether.

MEAT AND LIVESTOCK IN LIVE CATTLE CHE (40,000bs; conto/bs)

82.175 +1.500 82.175 61.250 8.869 44.337 63.200 +1.275 65.425 84.150 3.774 32.397 64.725 +0.975 65.000 64.000 1.722 18.358 64.475 +0.400 64.925 64.100 441 10.778 64.450 +0.575 65.700 65.500 170 5.316 67.450 +0.600 68.050 67.000 60 1.957 ■ LEAN HOSS CHE (40,000ths; cents/fee 34.725+2.000 34.725 34.900 4.772 19.191 38.850+2.000 39.850 38.800 2,478 11.213 50.950+2.000 50.950 49.450 1,375 7,140

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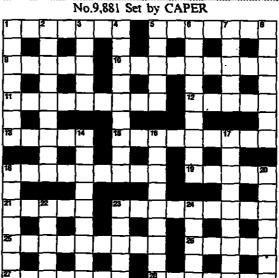
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**JOTTER PAD** 

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

#### **CROSSWORD**



**ACROSS** 1 Type of arrest that could be fatal for one not on the

5 insects appear in place that's hollow (7) 9 Shelf contains financial 10 Type of painting featuring small car by a river (9)

11 Big shots retain youth after

firm praises (9)
12 It's responsible for inflation in the bread making business (5) 13 Share-out pudding (5) 15 Stars with city lawyer (9) 18 Pleasure-seekers are dishonest, sadly (9) 19 Sells whips (5)

asleep (5)
23 Carry weapon around that's bloody, perhaps (5,4) 25 Dancing porn model is a sweety (5,4) 26 Damp duck in fog (5) 27 Spare book (7) 28 Last Sunday many joints were unusually sore at beginning of day (?)

I We hear they trade stocks of Wine (7) 2 Mocked one clear about being overdrawn (9)

"Perfect" "Perfect" - ti Labour's leader (5) Do cinemas broadcast the likes of Morecambe and

turned for a childish game (5.4) 7 Girl with sex appeal

upfront is something to make you hot and sweaty 8 linages found in mottled carpets? (7)

14 Cricketer, perhaps, can ini-

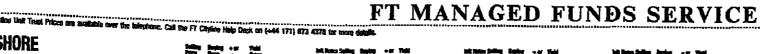
16 Paint's something that might kill a dog (9)
17 I'm one involved with cost

18 Swindler hurtles out of control (7) 20 Given a number (7) 22 in US, heads of entertainment make many young stars happy with these (5)
23 Drive Golf in stable (5)

24 Graduate leaves pudding for a dance (5) Solution 9,880



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AND OVERSEAS I BERMUDA Get on a JAL flight to Japan, IF tem Grown low! If any con-ficient Growth 1884 In 1885 and con-ficient Growth 1884 In 1885 and con-ception from 1884 In 1885 and con-ception from 1886 In 1885 and con-ception from 1886 In 1886 and con-pensation from 1886 In 1886 and con-pensation from 1886 In 1886 and con-pensation from 1886 and con-ception from 1886 and con-pensation from 1886 and con-pensation from 1886 and con-ception from 1886 and con-cep and end up somewhere in Europe. Japan Airlines are offering double bonus miles on flights from \_\_\_\_\_ L9406 400 **CAYMAN ISLANDS** sury Instil Liquidity Fes Pic **GUERNSEY** 

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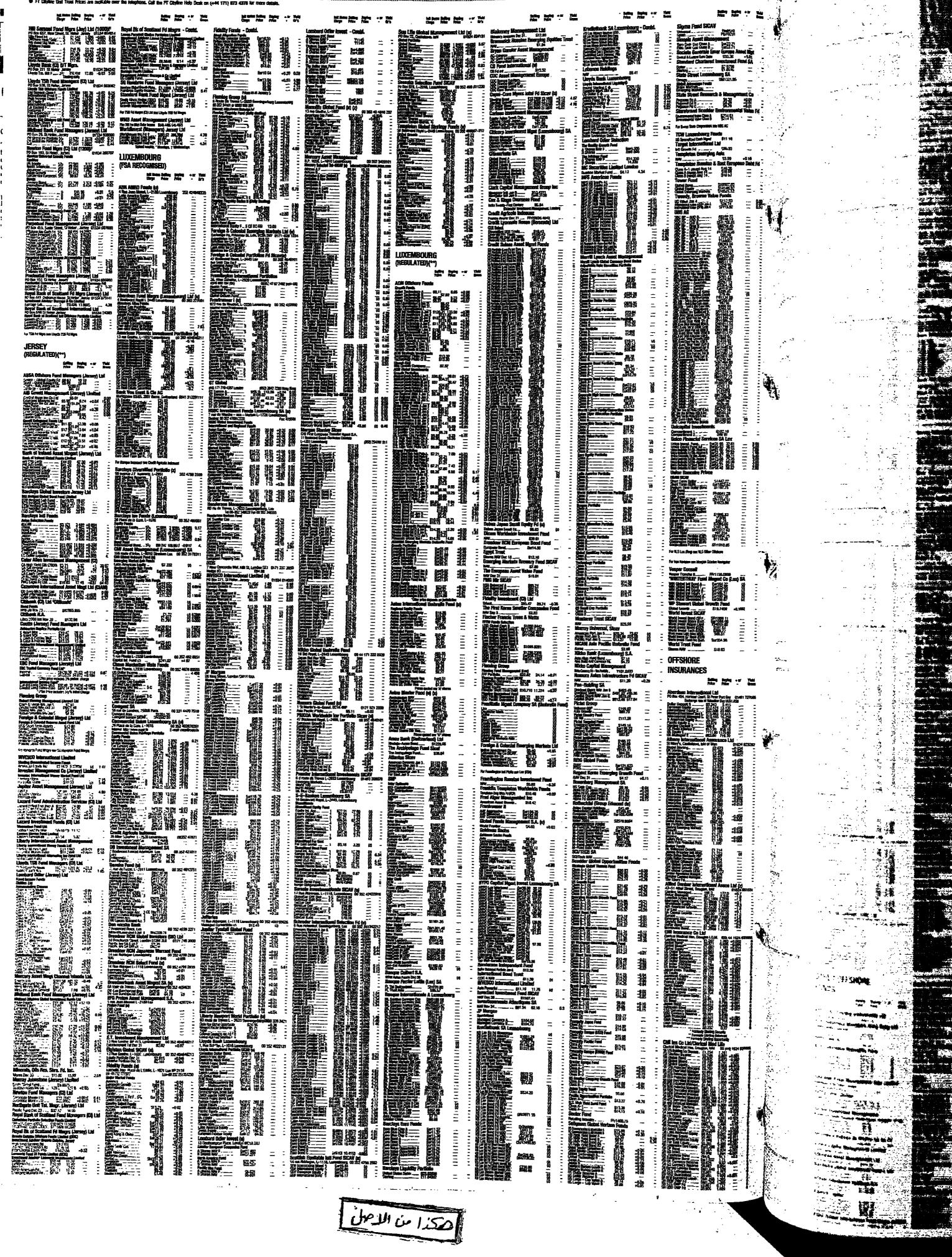
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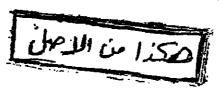
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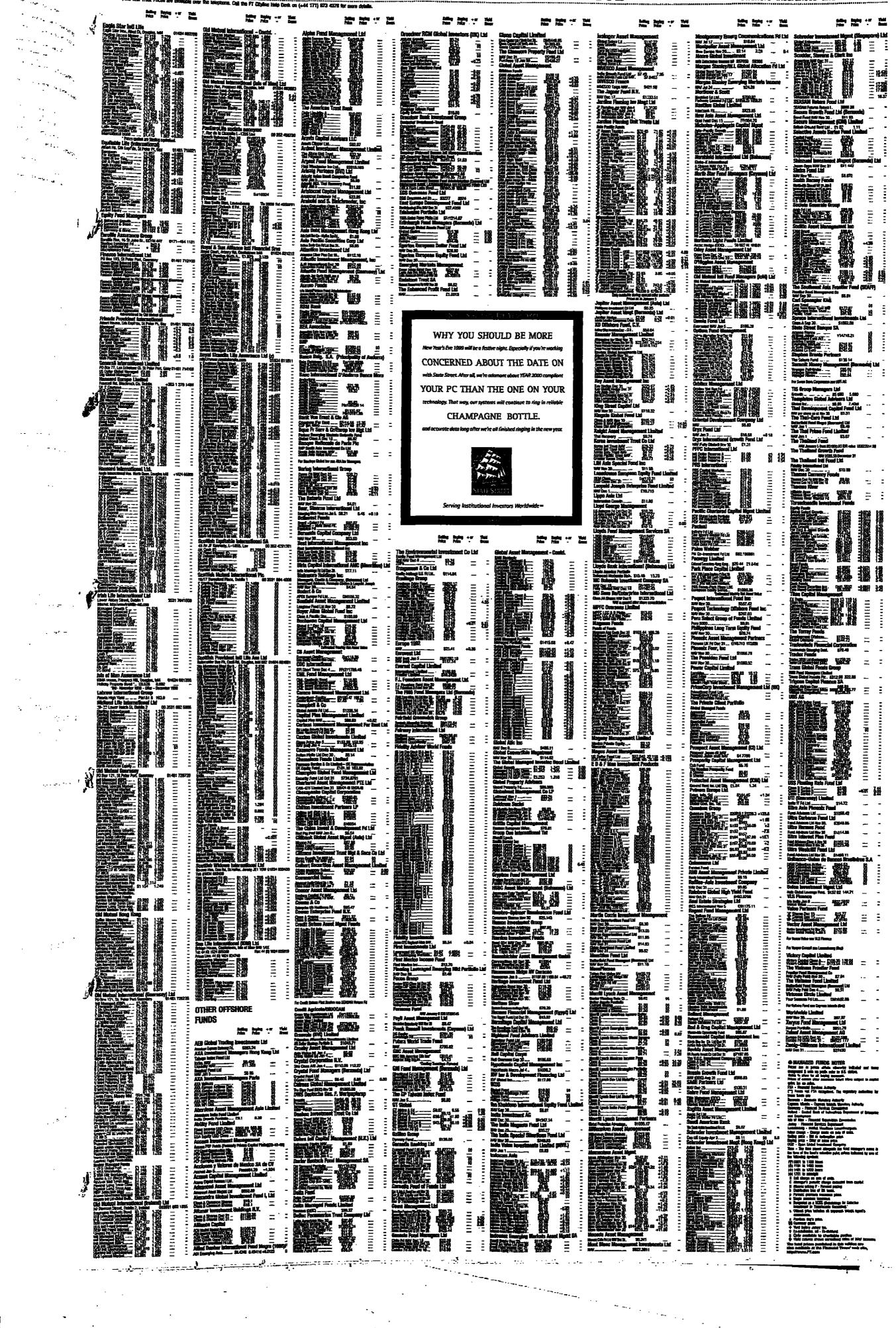
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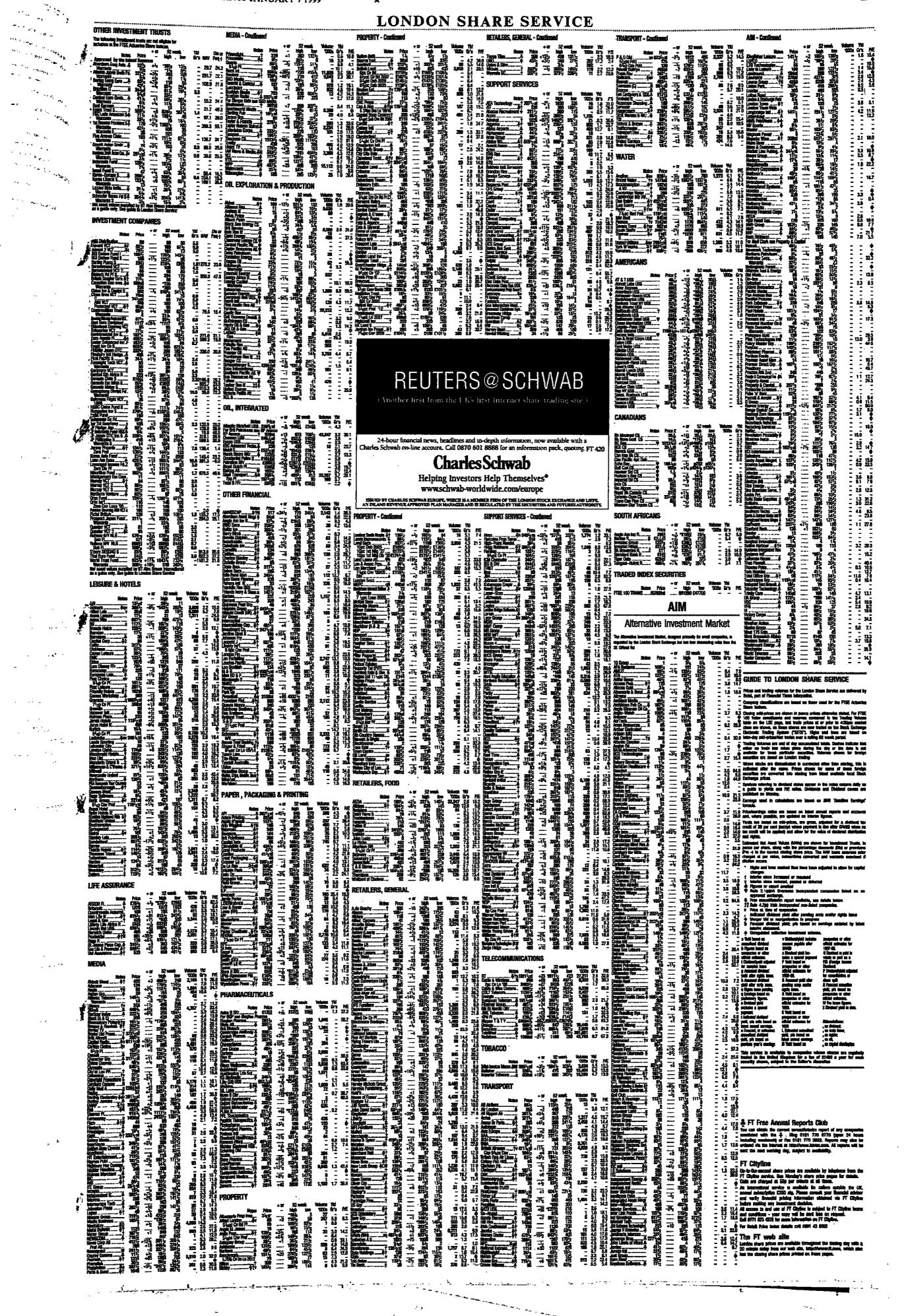


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CONSTRUCTION - Continued Financial Times Surveys Northern Ireland Thursday April 1 For further information please contact: Charles Blandford Tel: +353 1 676 1184 Fax: +353 1 676 2125 Tracey Endacott in London Tel: +44 171 873 4356 Fax: +44 171 873 4862 Hart Process of the p ENGINEERING, VEHICLES 为一种,我们是一种,我们也是 1273 -60
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FTSE All-Share index

### Bid fever drives Footsie to brink of new high

MARKET REPORT by Steve Thompson, UK Stock Market Editor

excitement in the telecoms arena. triggered by Vodafone's intervention in the bid are the favourable inflation tussle for AirTouch of the US, was the catalyst for est rates, which will be down another powerful showing to 5 per cent by the year by London's equity market end."

yesterday. sectors, but was especially evident in banks and insurance stocks.

Oil price

forecasts

revised

**COMPANIES REPORT** 

nd Martin Brice

By Peter John, Joel Kibazo

Hopes for the beleaguered oil

industry came under attack

as analysts prepared to

ratchet down their forecasts

broker to come out with a

revised 1999 forecast, cut its

current year estimate by \$3

to \$11 a barrel. That is well

below the consensus esti-

mate of \$14 a harrel, but

moving their numbers down

Those reduced forecasts will hit the exploration and

production companies partic-

Commerzbank analyst Jer

emy Elden reiterated his

"sell" stance on the sub-

sector and highlighted

Lasmo as being vulnerable

don't have a viable busi-

nesses and with these kind

of oil prices Lasmo is close

to being extinguished," he

said. Lasmo was the worst

performer in the FTSE 250

index as the shares fell 8 to

Commerzbank has down-

graded BP and Shell Trans-

port from "hold" to "sell".

BP, which is still benefiting

"In an \$11 world the E&Ps

among the UK explorers.

to around \$12 a barrel.

ularly hard.

Commerzbank, the first

for underlying oil prices.

observers, said: "There is ing into recession, it is slowing but not dramatically. The bull points for London outlook and declining inter-

At the height of the mar-The buying frenzy in tele- ket's buying spree the FTSE coms spilled over into other 100, London's benchmark index, looked like challenging its all-time closing high of 6,179.0. But it faltered Corey Miller, UK equities when the index was only a its record high in response through the stock market.

Shell fell 7 to 356%p.

Consolidation hopes con-

tinued to boost telecom

issues helping to drive the

market sharply ahead.

peak, the shares closing 80%

or 10.53 per cent up at 908½p, while Colt Telecom

advanced 87% to £11.24%. BT

surged above the £10 mark,

sion and telecoms group

Telewest Communications

the shares finishing the session 23 up at £10.11½ and Cable & Wireless improved

69 to 848p.

Orange rose to a new

At the close, the Footsie

more upside to come; the had chalked up a 190.6 giobal economy is not mov- advance to 6,148.8, only 30.2 away from its previous closing peak. That represented the third biggest points rise ever in a single session, although it was well down the list of percentage gains. The Footsie's record intraday high is 6,183.7.

Dealers said the momen tum behind the surge came from Wall Street overnight, where the Dow Jones Industrial Average raced up to within around 70 points of

ner Kleinwort Benson exe-

cuted a bought deal and pla-

Last month there were two large agency crosses in Telewest, which totalled 93m

shares or around 4.3 per cent

of the company's issued capi-

tal. They were executed at

150p a share by stockbroker

Cazenove. Vivendi, formerly

Eaux, was thought to have

been the seller. Yesterday.

unchanged at 205p.

Jan 6 Jan 5 Jan 4 Dec 30 Dec 29 Yrago "High "Line

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33n 5

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\*1475./

Telewest shares closed

Arbitrage trading was said

to be behind the decline in

Jan 4 Dec 30 Dec 23 Yrago

26,359 1196.2 20,335 298.7 3.402 520.5 146.5

iotal contract

cing in the stock.

from the re-weighting soured to 261m, making it by prompted by the Amoco far the most actively traded marger, rose 13 to 223p, but stock of the day, after Dresd-

fled during the afternoon as the Dow was catapulted to a record intra-day high, clambering through the 9,400

level in the process. Wall Street's momentum carried through into Asian another reduction in UK markets early yesterday, driving Hong Kong and Tokyo sharply higher and providing European markets with the perfect take-off. Confirmation of recent

rumours of a possible merger or alliance involving LucasVarity added to the feelgood factor running right

Oct

Vodafone Group, which this

week joined the race for US

group AirTouch by propos-

ing a \$55bn merger. The

shares declined 2114 to £10.89

AirTouch had already

entered merger talks with

British Aerospace badly

underperformed the market

as it fell a penny to \$18p

after a report in the French

press that Daimler-Benz

Aerospace chairman Jurgen

of the two companies would

be delayed for several

remained outstanding. How-

ever, the stock remains well

above its 52-week low of

300p, buoyed by optimism

that it will be involved in

the consolidation of the

European defence industry.

from British Airways on

prospects for all-important

premium traffic. It said high-

value traffic fell 3.6 per cent.

although its non-premium

traffic grew 12.9 per cent. It

also said forward bookings

pointed to "a continuing

softness, particularly in pre-

mium traffic". This was put-

There was gloomy news

Schrempp had said merge

US group Bell Atlantic.

Best and worst performing FISE sectors

optimism over the direction of domestic interest rates. Although there are doubts

England's monetary policy committee will sanction rates at noon today on com- cent to 2,110.3. pletion of its regular two-day meeting, many expect rates to come down to 5 per cent by the end of the year. The last three mpc meetings have been followed by rate cuts totalling 125 basis

More evidence of the strength of the market's

company said.

Giaxo rises

£22.81.

121/2 at 8991/2p.

in a busy session that FTSE 100's gain of 3.2 per brought turnover of 43m. cent. The stock closed up

Although the shares

advanced, their rise of 2.9

111% at 411%p, well below

their 52-week high of 721p

achieved before fears of a

general economic slowdown

Pharmaceuticals stocks

attracted more attention as

one US broker raised its

price target for Glaxo Well-

come. The stock is already

regarded as the most expen-

sive pharmaceutical com-

pany in the world by one

analyst, but Morgan Stanley

yesterday said the shares

should be bought up to £23

compared to its previous tar-

get of £21.50. Glaxo rose 48 to

Zeneca, seen by some as a

Glaxo target even though it

is in talks with Astra of Swe-

den, lifted 40 to £28.14. And

SmithKline Beecham added

exposure to Hong Kong.

took their toll over the

strategist at Paribas and one point short of registering a to the news about AirTouch.

Sentiment was additionary advance came now advance of the second and formances of the second and advances of the second advances of the third-line indices. The FTSE 250 jumped 74.2 or 1.5 per cent to 4,944.4. That index over whether the Bank of remains, however, a long way from its previous record close of 5,966.6. The FTSE SmallCap leapt 20.3 or 1 per

> A big bought deal in Telewest, the cable company, executed by Dresdner Kleinwort Benson, boosted market turnover, which reached 1.5bn shares. DKB

bought 253m Telewest shares from Cox Communications and quickly placed them in

nped 48% to 562%p, after

catalogue service.

said it was in talks with Norwegian oil services company ProSafe, lost all but a penny of the advance it achieved after the announcement. Traders suggested the terms involved selling Abbot. which lost 121/2 to 1800, and

Africa (9)

National gained 90 to £13.58, Bank of Scotland 45 to 737%p and Lloyds TSB 34% to 910%p.

helped by an upgrade from Lehman Brothers. The broker raised its recommendations on Royal & Sun Alliance, which rose 31% to 548%p; on CGU, which gained 50% to 979%p; and on Sun Life & Provincial, which

good news for all sector congoods retailer Dixons fell 401/2 to 7971/4p, the worst performer in the FTSE 100, after a couple of brokers urged clients to reduce holdings.

Small oil services group Financial stocks, which are the biggest component of Abbot, which on Tuesday the Footsie, rose sharply, reflecting their gearing to a rising market, their proportion of the market and their pi Regional Section The Asian factor helped Standard Chartered hit the of the deal presented an arbitop of the Footsie with a rise trage opportunity that Ameter (11) of 94 to 7840 and led to HSBC

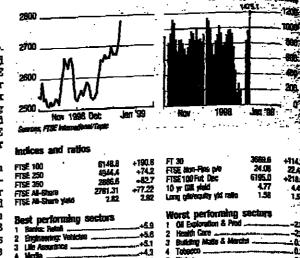
added 27 to 528%p.

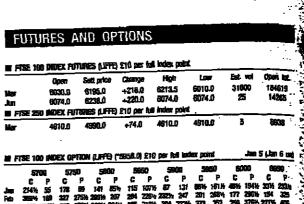
ment from fashion retailer
Next helped the shares move
sharply ahead on a limit to helped day in the market. The stock better-than-expected sales figures for the Christmas trading period.

The company said total sales in the 21 weeks to Christmas were 10 per cent higher than the year before. with a 13.5 per cent increase in sales from its stores partly offset by a 2.5 per cent decline in its Next Directory

However, it was far from

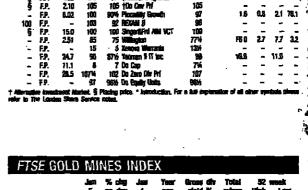
Dresdner Kleinwort Benson believes the recent excitement over the group's new internet connection service has been overdone. Deutsche Morgan Grenfell was also said to be negative on both Dixons, which reports interim figures next week, and Kingfisher up 201/2 to 684½p.





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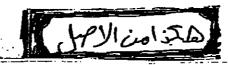
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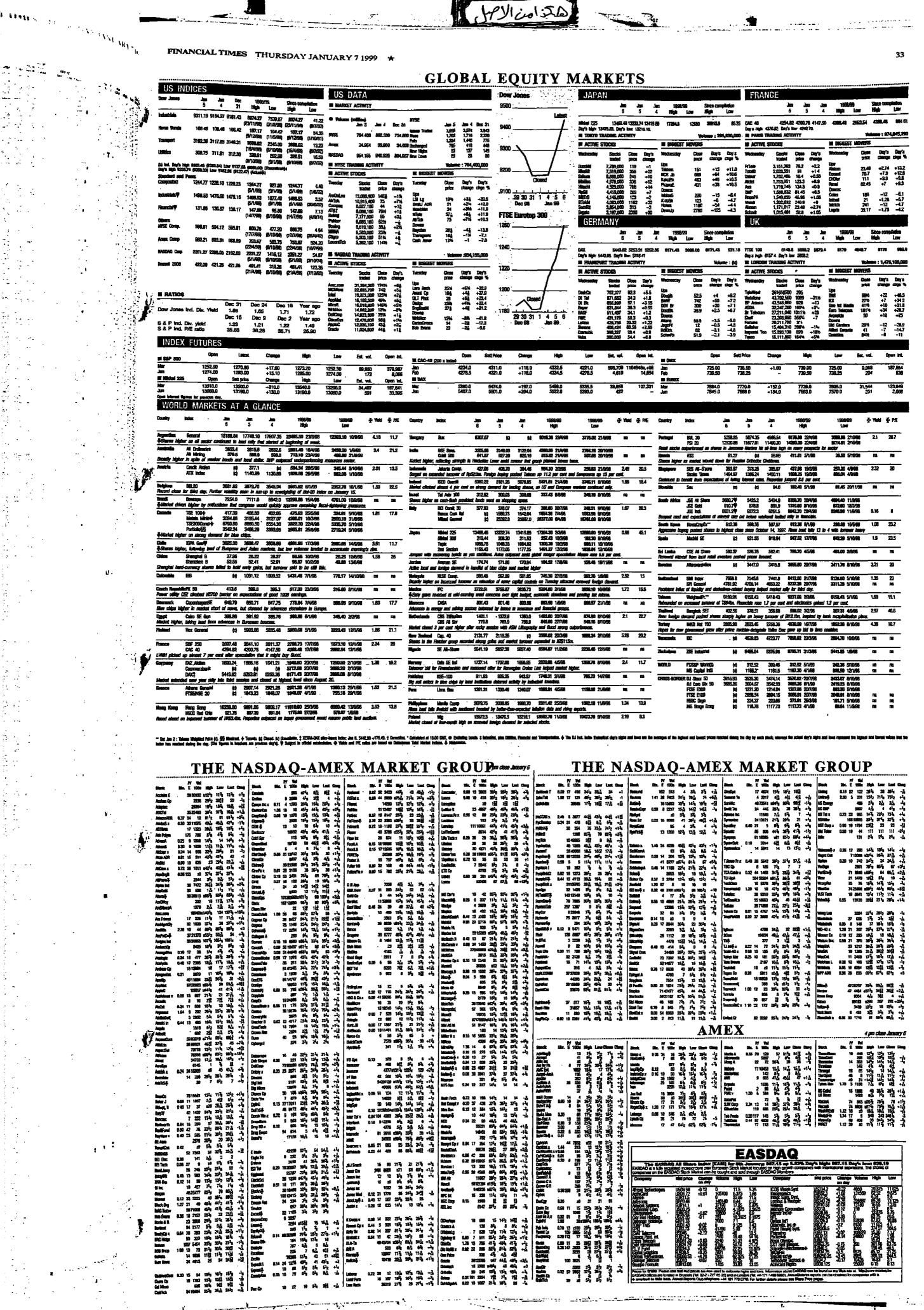
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#### **WORLD OVERVIEW**

The new year rally in world stock markets roared ahead again vesterday, with the US stock market leaping into record territory in early trading and European markets starting to approach their all-time highs, writes Philip Coggan.

Average jumped 150 points in morning trading to pass the 9,400 level for the first

2.2 per cent respectively. The latter finished within 100 points of its closing record. Asia also joined in, with Hong Kong up 3.5 per cent, Singapore 5.7 per cent and Thailand 6.4 per cent.

January rallies are traditional in equity markets and this time round investors were given a burst of encouragement by a wave of takeover talk in US and European markets.

Tuesday, continued to the stock market. abound and good news on

Meanwhile the telecoms strength, after Vodafone's stocks that they expect to continues. proposed \$55bn offer for Air-perform well in 1999, Euro-Touch of the US, which was announced on Tuesday. Another strong sector was financials. which should

benefit from lower global

Briefly breaking above 4,300

for the first time since July,

sion for the CAC-40 index

with a gain of 94.04 or 2.2 per

Banks blazed away for the

third day running as talk of

sector consolidation hard-

ened. Société Générale rose

cent at 1,294.82.

PARIS ended an active ses-

Paris gained 3.4 per cent and auto sector, prevalent on have a geared relationship to this year - and remain the

There were signs that low bond yields and falling built up during the autumn of the launch of the euro.

Although corporate earn-

car sales gave the sector institutional investors were short term rates mean that another excuse to motor reducing their cash levels many investors see little alternative to the stock marturmoil and putting the ket, especially if the recent sector kept up its recent money into the blue-chip frenzy of takeover activity

main concern of the bears -

James Montier, global pean stocks are receiving strategist at BT Alex Brown, particular attention because who remained cautious throughout 1998, has changed his view. "For the ings and economic growth first time since October 1997, should be reasonable for may come under pressure equities are our preferred equities," Mr Montier added.

or 26.7 per cent to €36.10.

Hoogovens, another leader

to be given a pasting by

investors last year, rose

€2.80 or 11.6 per cent to €27.

against an equivalent March

Royal Dutch was a rare

weak feature in spite of a

slightly better day for inter-

national oil prices. The

shares shed €1.50 at €40.40.

ZURICH maintained its

unward momentum, driven

higher by a persistent influx

of liquidity and derivatives

related buying, and the SMI

index rose 123 or 1.6 per cent

Shares incorporated in the

Stoxx 50 index of leading

European shares were once

Pharmaceutical group

Roche broke out of its recent

technical range and the cer-

tificates finished SFr320

again in the spotlight.

to close at 7,668.8

peak of €50.42

[12-18 month] time horizon. "This new found confidence in equities is based on the old adage 'Don't fight the Fed'. The US authorities have shown themselves willing to act in the face of adversity - if necessary they will do so again. Our central case is for slightly slower growth and slightly higher inflation in the US this year than last and this backdrop

in 1993. From being the top per-Paris shows taste for LVMH

inamimate corose.

industrials. OSLO surged 2.7 per cent brand and rumours of a sian economy is strongly

The total index climbed Finansbanken surged NKr8.50 to NKr89.50 after

Oslo-based bank, valuing it Storebrand, which plans to issue shares to fund the

takeover, ended NKr0.50 weaker at NKr62. NCL also surged, gaining NKr4.70 to NKr22, on speculation that it might be a

Aune declined to comment. Written and edited by Michael Morgan, Jeffrey Brown, Paul

rose SFr26 to SFr2,881.

Food and beverage group Nestlé gained SFr51 to SFr3.107, while telecoms group Swisscom recovered from recent profit-taking to close SFr9 higher at SFr562.

Among industrials, Holderbank profited from options-related buying, rising SFr95 or 5.8 per cent to SFr1,735. Georg Fischer ended SFr30 higher at SF1500 and Oerlikon-Buehrle rose SFr18 to SFr175.

in heavy trade, helped by a takeover bid for Finansbanken by insurer Storetakeover offer for Norwegian Cruise Line.

26.08 to 1,011.27, the first close above 1,000 points since November 4.

Storebrand said it planned to bid NKr40 per share for the at NKrl.6bn.

takeover target, although managing director Geir

Gregan and Mark Heriby

**EMERGING MARKET FOCUS** 

### Sickly Russia's bitter medicine

Long before freezing temperatures gripped the Russian capital this winter, the country's youthful stock market had been suffering from the most severe bout of ill-health since its formation

former around the world in 1997, it plummeted to an ignominious last position in 1998, driving away investors with an urgency that is unlikely to be reversed in the next few months.

The financial crisis last August - when the Russian government simultaneously devalued the rouble and defaulted on its debt - did little more than deliver a final bruising blow to a near-

There was a combination of global and Russian factors work," said Margot Jacobs, a senior analyst with United Financial Group in Moscow. She highlighted the shock of the Asian market crash in the final quarter of 1997, which led to money being withdrawn from emerging markets around the world. The decline in commodity prices - notably for the oil on which the Rusdependent - added pressure.

Then President Boris Yeltsin unexpectedly sacked his prime minister, Viktor Chernomyrdin, in March 1998. Each time an Asian wave subsided, a Russian-specific one came along and prevented people from putting money back into the country," says Ms Jacobs. Suspicion over the health of the economy and the lack of good corporate governance within Russian companies did not belp.

The subsequent management of the economy has offered little prospect for optimism. Sergei Kirlenko was himself sacked as prime minister after the August crisis, but his replacement, Yevgeny Primakov, has come under criticism for simply postponing any tough

decisions in his efforts to build a cross-party consen-

The result is a 1999 budget with few expenditure cuts, unrealistic assumptions of economic growth and tax collection, and an exchange rate for the coming year of just over Rbs21 to the dollar. In reality, most economists anticipate a considerable further slide in the rouble, a sharp jump in inflation and a decline of 5 per cent in gross domestic product dur-

ing the year. If investors have turned their backs on all emerging markets, they have stronger reasons for avoiding Russia. And the collapse of the domestic banking system has dried up the principle alternative forms of financ-

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ing available to the country's companies. Peter Boone at Brunswick Warburg in Moscow suggests two scenarios for 1999. If the government through with its budget, he argues, the stock market may rally in the build-up to a new package of aid brokered by the international Monetary Fund. If not. the market is likely to stagnate. So far, only the bolder individuals and hedge funds have come back since August into a market char-

acterised by low volumes

and high volatility.

Andrew Jack

### **Active trade** sends Dow to record levels

#### **AMERICAS**

US shares surged in active morning trade, sending the Dow Jones Industrial Average to record levels by midday, writes John Labate.

With the earnings reporting season two weeks away. investors bid up high-tech and blue-chip shares. prompting the broadest rally of the week, while smallcompany shares trailed the rest of the market, although they were closing the gap.

The Dow Jones Industrial Average was 151.39 higher by early afternoon, a gain of 1.6 per cent, at 9,462.58. The Standard & Poor's 500 index rose 20.53 to 1,265.31. The strongest run was in the high-tech sector, as merger negotiations involving Air-Touch and analyst upgrades for semiconductor shares, helped to send the Nasdaq composite 58.32 or 2.6 per cent higher at 2,309.59.

A series of raised ratings by analysts at BT Alex Brown for semiconductor equipment makers helped spark yesterday's bullish streak. Novellus Systems rose \$7 or more than 11 per cent to \$65% after the stock was raised to "strong buy" from "market perform".

Other computer-related sectors were higher as well, with Cisco Systems, the networking leader, up \$4% at \$101 . But shares of Apple Computer slid \$1# to \$41% one day after the company announced new computer lines and said it would have a profitable quarter. The company was downgraded

including, in the specialty Alcan Aluminium

#### retail sector, Best Buy. It gained \$4% to \$70% after reporting a 10.5 per cent rise

in same-store sales for December. Financial services company Citigroup led the Dow after Salomon Smith Barney

trimmed its estimate of first-Tenneco, the US motor \$35 after the company

issued a profits warning for

its fourth quarter.

Steel company USX gained 9 per cent to \$26% after Merrill Lynch raised its rating to "buy" from "accumulate". Merrill also raised LTV to "near-term buy", helping to send shares up \$1% or 21 per cent to \$74.

strongly, although volumes were light and momentum was said to be approaching a ceiling. The 300 composite index was up 138.79 at 6.799.29 at noon.

Telecoms again provided some of the sharpest gains as the sector continued to find favour on a global basis. Northern Telecom, boosted by talk of a big contract, jumped C\$2.50 at C\$88.50. BCE, which has a stake in Northern Telecom, advanced

C\$2.50 to C\$63.50. Banks were also sent higher. Royal Bank gained C\$1.70 to C\$79.70 and Bank of Montreal rose C\$1.50 to C\$65.50. Canadian Imperial improved 80 cents to C\$39.55. Barrick added 35 cents to

'underperform" from "hold". C\$12.10. There was an 85 Retail stocks were strong, cents gain to C\$43.50 for

#### São Paulo gains amid hopes for fiscal reform

SAO PAULO continued to gain ground, boosted by the early record run on Wall Street and the improving political climate at home where hopes of fiscal reform remained high.

Blue chips led the upturn. Banespa rose 5 per cent to R\$53 after a central bank of the US Wal-Mart group, director said the the government would attempt to fully privatise the bank by the end of April.

At midsession, the Bovespa index was up 135 at 7,245, a gain of 1.9 per cent.

initial gains as talk of a tight budget and tax reforms sparked widespread selling. going to be broadly negative for company profits," said

one broker. 24.75 pesos.

MEXICO CITY reversed "It looks as if the budget is

Leading retailer Cifra, part fell 30 centavos to 10.50 pesos, while beverage group Femsa lost 90 centavos at

At midsession, the IPC index was off 31.51 at

#### €12 to €169 and Parihas €2.70 to €86.95, BNP gained €6.50 or 8.7 per cent to €81.45, although in its case trading volumes were far from News that it had lifted its stake in Gucci to 5 per cent

sparked a wave of talk that LVMH was set to mount a parts company, fell \$14 to full-scale takeover for the luxury goods label. LVMH jumped to €205.70 in early trading, but eventually closed up €13 at €200. Listed in Amsterdam, the Italian-hased Gucci shot up

FTSE Eurotop 300 index rose 30.11 or 2.45 per cent to 1,261.32. See Euro Prices page.

TORONTO pushed ahead more than 21 per cent at one stage before closing with a gain of 19.3 per cent, up Alcatel was also the sub-

ject of takeover talk after a big US buyer was said to have entered the market. The stock, long rumoured to be at the centre of defence jumped €8.90 to €123.30 after a session high of €125.20. Total ended a busy session

€1.40 better at €91 after a morning meeting with French analysts at which Thierry Desmarest, the oil giant's chairman, provided broad reassurance about 1998 earnings. FRANKFURT extended its

third session and the market C\$29.95. Teck Corp gained 55 closed at its highest level since August 20 last year: The Xetra Dax index put on 179.49 or 3.4 per cent to

5,442.90 for a three-session rise of 8.7 per cent. The motor sector remained in the spotlight, with investors apparently reluctant to accept denials of recent merger speculation at face value. BMW, which has denied link-up talks with

Ford, climbed another €41 to

€740. DaimlerChrysler was

1998 7 99 1998 99

€5.73 higher at €92.51 even though the transatlantic glant insisted that talks involving Nissan Diesel truck operations had not moved into areas of wider

to €78.76. Most of the big banks also had a good day. Dresdner rose €1.92 to €39.52, Commerzbank was 61.54 higher at €28.54 and Deutsche Bank put on €2.62 at €56.51.

Volkswagen put on €2.76

Telecoms remained in focus. Deutsche Telekom, still digesting Monday's 15.6 per cent surge, put on €1.93 to €39.65. Mann €2.20 higher at €118.50 as tie-up rumours continued in softe of the German group's denial of an interest in Air-Touch of the US.

SAP recovered from the previous day's 15 per cent plunge, which had been provoked by disappointment over 1998 profits. The shares picked up €13 to €341. J.P. Morgan, which cut its earnings forecasts for the software group, said it was maintaining its "buy" recommendation on the share, because of SAP's posi-

strong new year rally into a tive long-term fundamentals. AMSTERDAM powered ahead, rising 17.15 or 3 per index, with an 8.4 per cent advance at electronics giant Philips supplying much of the day's gain.

Philips, boosted by Wall Street's record run in early trading, advanced €4.95 to €64.25. The gains were equally dramatic elsewhere among techs. Baan jumped 90 cents to €10.40, while ASM Lithography, which touched the equivalent of

#### Firm rand boosts all share

#### SOUTH AFRICA

A firm rand and talk of an official cut for interest rates before the weekend sent financial stocks in Johannesburg ahead for a second day. hoisting the all share index 4.7 per cent to 5,680.7.

Financials rose 7.4 per cent to 9,078.9 as softening money markets hardened rate cut hopes. Stanbic rose 8.3 per cent to R19.50 in 2.5m shares traded. Industrials added 4.5 per cent to 6.551.2 and golds improved 3.6 per cent to 910.7.

### Foreign demand lifts Bangkok

#### **ASIA PACIFIC**

Active foreign buying sent BANGKOK sharply higher for a third day and the composite index finished 24.05 or 6.4 per cent abead at 402.56 an eight month high. Analysts noted local and

foreign demand for bank. finance, telecoms and property stocks. The increased overseas

general shift by global investors into euro-denominated assets from dollar assets. At the same time, investors were using the opportunity to increase their weightings Recent announcements by

Thai banks that they would

seek government assistance to raise their non-equity tier-2 capital also boosted TOKYO advanced slightly, posting its first gain of the year as the yen and the bond

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Alexandra Nusbaum. The Nikkei 225 posted a 1.8 per cent gain, climbing 235.72 to 13.468.46 after trading between 13,216 and tive weighted Nikkei 300 rose 1.1 per cent or 2.24 to



210.44. The Topix index of all first section shares was up

10.43 to 1.058.76. Volume was light, with 295.63m shares traded. Momentum was up as 804 issues advanced, 313 declined and 173 were

The yield on the 10-year government bond fell 9 basis market stabilized, writes points to 1.82 per cent as investors awaited the outcome of today's government bond auction. The banking sector, which has big bond portfolios, rose 2.3 per cent. Sakura Bank climbed Y10 to Y245, Fuji Bank gained Y19 to Y417 and Bank of Tokyo- prime lending rates to 4.5

The ven held firm at Y112 to the dollar, but exportoriented stocks continued Tuesday's fall. Sony lost Y30 to Y7,740 on comments by Masayoshi Morimoto, senior vice president, that if the yen stayed below Y115 to the dollar, "it's going to be a severe year." Bridgestone fell Y70 to Y2,223 and Fuji Film lost Y130 to Y3,850.

among carmakers pushed up the shares of Nissan, which rose Y14 to Y348, and Honda, which climbed Y120 to in Osaka, the OSE index

Speculation over alliances

SINGAPORE soared 5.7 per cent to a nine-month high on fund-buying by managers reallocating portfolios at the start of the year.

The Straits Times index rose 78.73 to 1,464.97 in heavy volume of 525m shares as some investors took their cue from Wall Street's overnight rise. Property and bank stocks led the rally, with rises of 8.6

per cent and 5.2 per cent

respectively, on expectations

that local banks would cut

Local shares of DBS and OCBC ended 50 cents higher at \$\$8.30 and \$\$7.10 respec tively. Property heavyweight City Development rose 60 cents to S\$7.40 on expectations that the government might relax anti-speculation measures to

boost the sector. JAKARTA surged for a second day, ending 4.5 per cent higher as investors bought blue chips, inspired by regional gains and a positive response to Indonesia'

The composite index closed up 18.38 at 427.08. Telkom, which accounts for 14 per cent of total market capitalisation, and cigarette group HM Sampoerna were the targets of heavy foreign buying.

Telkom rose Rp350 to

Rp3,300, helped by talk of a

possible domestic-call tariff rise this month and support from Wall Street gains overnight. Sampoerna rose Rp825 or 15 per cent to Rp6,325. Rises of more than 3 per cent on the day were also recorded in HONG KONG,

KUALA LUMPUR and



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